

Edgar Filing: PUBLICARD INC - Form 10-K

PUBLICARD INC
Form 10-K
March 29, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ____ TO ____.

COMMISSION FILE NUMBER 0-29794

PUBLICARD, INC.
(Exact Name of Registrant as Specified in Its Charter)

PENNSYLVANIA 23-0991870
(State or Other Jurisdiction (I.R.S. Employer Identification No.)
of Incorporation or Organization)

620 FIFTH AVENUE, 7TH FLOOR, NEW YORK, NY 10020
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (212) 651-3102

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class -----	Name of Each Exchange on Which Registered -----
NONE	NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK (\$.10 PAR VALUE)
(Title of Class)
RIGHTS TO PURCHASE CLASS A PREFERRED STOCK, FIRST SERIES
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
--- ---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

Edgar Filing: PUBLICARD INC - Form 10-K

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No X

--- ---

As of June 30, 2003, the aggregate market value of the voting Common Stock held by non-affiliates of the registrant was approximately \$1,580,000.

Number of shares of Common Stock outstanding as of March 24, 2004: 24,690,902

DOCUMENTS INCORPORATED BY REFERENCE

None

1

PART I

This Form 10-K contains forward-looking statements, including (without limitation) statements concerning possible or assumed future results of operations of PubliCARD, Inc. and subsidiaries, ("PubliCARD" or the "Company") preceded by, followed by or that include the words "believes," "expects," "anticipates," "estimates," "intends," "plans" or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. You should understand that such statements made under "Factors That May Affect Future Results" and elsewhere in this document could affect our future results and could cause those results to differ materially from those expressed in such forward-looking statements.

ITEM 1. BUSINESS

PubliCARD was originally incorporated in 1913 in the Commonwealth of Pennsylvania. Through its Infineer Ltd. subsidiary, PubliCARD is a smart card technology company, which designs and develops smart card software and hardware solutions for campus environments. This market includes institutions such as corporate campuses, secondary schools and universities. The Company's ChipNet solution focuses on delivering a multi-functional platform to control access to and payment for a wide variety of applications using a single smart card. The solution has been designed to accommodate integration with a range of third party technologies. The Company believes that the educational, government and corporate sectors all continue to move toward the more functional and broader applications that a smart card solution can provide over traditional methods. The Company sells its transaction solutions to value-added resellers and distributors, and directly to end-users.

At present, PubliCARD's sole operating activities are conducted through its Infineer Ltd. subsidiary. The Company's future plans revolve around a potential acquisition strategy that would focus on businesses in areas outside the high technology sector while continuing to support the expansion of the Infineer business. However, the Company will not be able to implement such plans unless it is successful in obtaining funding, as to which no assurance can be given.

The consolidated financial statements included in this Form 10-K contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred operating losses, a

Edgar Filing: PUBLICARD INC - Form 10-K

substantial decline in working capital and negative cash flow from operations for a number of years. The Company has also experienced a substantial reduction in its cash and short term investments, which declined from \$17.0 million at December 31, 2000, to \$3.6 million at December 31, 2003. The Company also had a working capital deficiency of \$1.0 million and an accumulated deficit of \$113.6 million at December 31, 2003.

If the distress termination of the Company's defined benefit pension plan for which the Company has applied is completed (see Note 5 to the Notes to Consolidated Financial Statements), the Company's 2003 and 2004 funding requirements to the plan could be eliminated, in which case management believes that existing cash and short term investments may be sufficient to meet the Company's operating and capital requirements at the currently anticipated levels through December 31, 2004. However, additional capital will be necessary in order to operate beyond December 2004 and to fund the current business plan and other obligations. While the Company is actively considering various funding alternatives, the Company has not secured or entered into any arrangements to obtain additional funds. There can be no assurance that the Company will eliminate the 2003 or 2004 funding requirements for the defined benefit pension plan or be able to obtain additional funding on acceptable terms or at all. If the Company cannot raise additional capital to continue its present level of operations it may not be able to meet its obligations, take advantage of future acquisition opportunities or further develop or enhance its product offering, any of which could have a material adverse effect on its business and results of operations and could lead the Company to seek bankruptcy protection. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the Company's failure to obtain funding or inability to continue as a going concern.

INDUSTRY

Security and privacy are primary concerns of the ever-growing information economy. The expected level of growth in secure business-to-business and consumer-to-business transactions will only occur if consumers, businesses, governments and other organizations are confident that their network and Internet exchanges and transactions are secure from unauthorized intrusion, usage, sabotage and theft. To effectively address the growing need for greater enterprise and on-line security, individuals and organizations are turning to smart card technology. Through its central processing and memory capabilities, smart card technology enables cryptographic communications, authentication and other applications that permit secure data access, information exchange and electronic transactions within network and Internet environments.

2

A smart card is similar in appearance to a traditional credit card, but unlike a traditional credit card, stores information on an integrated circuit chip embedded within the card, rather than on a magnetic stripe on the surface. While a typical magnetic stripe card can store information such as a user's name, account and personal identification number, a smart card can have the capacity to store detailed account information, health care records, merchant coupons, still or video images and cash. Additionally, the integrated circuit within a smart card serves as a central processing unit which, combined with its memory capacity, facilitates the use of encryption applications, which secure data and value exchanges within networks and the Internet. Smart cards also permit bi-directional authentication in which the smart card can authenticate the validity of the intended party or device prior to exchanging information or value.

Edgar Filing: PUBLICARD INC - Form 10-K

The rollout of smart card technology started in the telecommunication sector, specifically to facilitate the use of public payphones (replacing coins) and mobile phones (Subscriber Identification Modules). The deployment of smart card technology in this sector demonstrates the security and adaptability of the technology and evidences the uniqueness of smart cards as a medium for storing, transporting and processing personal information, access keys and other information.

Smart card technology is now being widely deployed in other market sectors, including the security and transaction management sectors. In the security sector, smart card technology is being used to authenticate and secure access to physical premises, PCs, networks, virtual private networks, and the Internet, and through cryptography, facilitate secure email, electronic document and information exchanges, e-commerce transactions/payments and other Internet and broadband applications. In the transaction management sector, smart card technology is being used within a variety of closed system environments. For example, smart card technology is being used in the banking sector to secure payment transactions in physical and virtual worlds and in the transportation sector to replace "tickets," thereby speeding up the ticketing process and making it more efficient. Other closed environments such as corporate or educational campuses are using smart card technology to resolve a mix of both security and transaction needs including purchase and payment transactions, identification, authentication and access.

Demand for smart card solutions is being further driven by governments and financial institutions. The U.S. Department of Defense began deployment of smart cards to armed force personnel under the Common Access Card personal identity program in 2000. The European Commission ("EC") is also supporting the adoption of smart card technology in their continuing efforts to create a more efficient and competitive economy within the European community. Through the eEurope program, the EC is sponsoring programs to standardize smart card infrastructure devices and harmonize system platforms. Finally, smart card technology is rapidly becoming a key facilitator of financial transactions. The financial and banking community in Asia and Europe is using smart card technology to support credit, debit and e-purse cards (cards that store cash values), multi-application services and services dealing with coupons and/or tickets. Several large U.S. financial institutions, including American Express, MasterCard and Visa International, have introduced smart cards as part of their financial card systems.

The use of smart card technology is especially well suited for managing transactions in closed environment solutions that restrict access and manage payments. In closed environments, smart cards are used to control access to physical premises, process payments and provide portable network security. The Company believes that the educational, government and corporate sectors all continue to provide growth opportunities as these institutions move toward the more functional and broader applications that a smart card solution can provide over other traditional methods. Smart card solutions offer a greater level of flexibility and permit development of customer specific applications that cannot be offered by traditional methods of providing closed environment security and transaction management such as the magnetic stripe.

With the increased use and acceptance of smart cards and related technologies worldwide, there are numerous applications to use smart card technology in a variety of infrastructure platforms. PubliCARD has developed a client-server based software solution for closed campus proprietary card users, which is focused on delivering multi-functionality around a single card supporting a wide range of third party technologies.

STRATEGY

HISTORY OF THE COMPANY'S SMART CARD INITIATIVE

Edgar Filing: PUBLICARD INC - Form 10-K

PubliCARD established its presence within the smart card industry through a series of acquisitions:

- o In February 1998, PubliCARD acquired, through a joint venture arrangement in Greenwald Intellicard, Inc. ("Greenwald Intellicard"), the assets and intellectual property of Intellicard Systems, Ltd. Greenwald Intellicard provided smart cards, smart card readers, value transfer stations, card management software and machine interface boards for the commercial laundry appliance industry. PubliCARD initially owned 50% of Greenwald Intellicard, and acquired the remaining 50% in February 1999 and February 2000.

3

- o In November 1998, PubliCARD acquired Tritheim Technologies, Inc. ("Tritheim"), which developed conditional access and security products for the software industry, computers and the electronic information and the digital video broadcast industry. In May 2000, the Company changed the name of its Tritheim subsidiary to Infineer, Inc. as part of a re-branding effort.
- o In February 1999, PubliCARD acquired Amazing! Smart Card Technologies, Inc. ("Amazing"), a developer of consumer smart card solutions and a manufacturer of customized smart cards.
- o In February 1999, PubliCARD acquired Greystone Peripherals, Inc. ("Greystone"), a developer of hard disk duplicators.
- o In November 1999, PubliCARD acquired Absec Limited ("Absec"), a designer of closed environment solutions, including small value electronic cash systems and database management solutions. In May of 2000, the Company changed the name of its Absec subsidiary to Infineer Ltd. ("Infineer") as part of a re-branding effort.

While PubliCARD developed a number of successful smart card products and solutions, its operations were fragmented throughout a variety of markets. PubliCARD's Board of Directors, together with its management team, determined to integrate its operations and focus on a single market in which:

- o high growth potential existed;
- o PubliCARD had established relationships;
- o PubliCARD had already deployed products and gained credibility; and
- o PubliCARD possessed core technologies and competencies.

PubliCARD believed that it could leverage its existing smart card technology for deployment in the rapidly growing enterprise and on-line security and transaction management market sectors, which PubliCARD had already penetrated and which it believed exhibited each of the characteristics identified above. To effect this new business strategy, in March 2000, the Company's Board of Directors adopted a plan to dispose of the operations of the Company's Greenwald Industries Inc. ("Greenwald"), Greenwald Intellicard, Greystone and Amazing subsidiaries. These subsidiaries designed, manufactured and distributed mechanical and smart card laundry solutions, hard disk duplicators and smart cards.

On June 29, 2000, the Company completed the sale of substantially all of the assets of Greenwald and Greenwald Intellicard to The Eastern Company ("Eastern") for \$22.5 million in cash, less \$1.75 million held in escrow to secure the payment of certain indemnification obligations. As part of the

Edgar Filing: PUBLICARD INC - Form 10-K

transaction, Eastern assumed certain liabilities of Greenwald and Greenwald Intellicard, including certain contractual liabilities, accounts payable and accrued liabilities. The Company completed the wind-down of the operations of Amazing and Greystone including the sale of certain assets and the licensing of certain intellectual property during 2000 and 2001.

In December 2000, the Company acquired a 3.5% ownership interest in TecSec Incorporated ("TecSec") for \$5.1 million. TecSec, a Virginia company, develops and markets encryption products and solutions, which are designed to enable the next generation information security for the enterprise, multi-enterprise e-business and other markets.

In July 2001, after evaluating the timing of potential future revenues, PublicARD's Board decided to shift the Company's strategic focus. While the Board remained confident in the long-term prospects of the smart card business, the timing of public sector and corporate initiatives in wide-scale, broadband environments utilizing the Company's smart card reader and chip products had become more uncertain. Given the lengthened time horizon, the Board did not believe it would be prudent to continue to invest the Company's current resources in the ongoing development and marketing of these technologies. Accordingly, the Board determined that shareholders' interests would be best served by pursuing strategic alliances with one or more companies that have the resources to capitalize more fully on the Company's smart card reader and chip-related technologies. In connection with this shift in the Company's strategic focus, workforce reductions and other measures were implemented to achieve cost savings.

In September 2001, the Company formed a new minority-owned affiliate, Mako Technologies LLC ("Mako") to market its smart card reader and chip technologies. The move was consistent with the Company's decision to explore strategic transactions that would enable the Company to reduce or eliminate its ongoing cash funding requirements for its smart card reader and chip business while retaining an interest in the upside potential for these technologies. The Company contributed certain inventories and equipment valued at \$238,000, in exchange for a 31% fully diluted ownership interest in Mako. The Company also granted a license of its reader and chip technology to Mako in exchange for royalties based on sales over the next two years. After reducing headcount and reassessing business potential, a decision was made in April 2002 to liquidate Mako and terminate the license agreement. The Company subsequently licensed the technology to a third party and does not expect to receive significant royalties.

4

CURRENT STRATEGY

At present, PublicARD's sole operating activities are conducted through its Infineer subsidiary, which designs smart card solutions for educational and corporate sites. The Company's future plans revolve around a potential acquisition strategy focused on businesses in areas outside the high technology sector while continuing to support the expansion of the Infineer business. However, the Company will not be able to implement such plans unless it is successful in obtaining funding, as to which no assurance can be given. Key elements of our strategy include the following:

- o GENERATE CAPITAL. If the distress termination of the Company's defined benefit pension plan for which the Company has applied is completed (see Note 5 to the Notes to Consolidated Financial Statements), the Company's 2003 and 2004 funding requirements to the plan could be eliminated, in which case management believes that existing cash and short term

Edgar Filing: PUBLICARD INC - Form 10-K

investments may be sufficient to meet the Company's operating and capital requirements at the currently anticipated levels through December 31, 2004. However, additional capital will be necessary to fund the current business plan and other obligations and to operate beyond December 2004. While the Company is actively considering various funding alternatives, the Company has not secured or entered into any arrangements to obtain additional funds. There can be no assurance that the Company will eliminate the 2003 or 2004 funding requirements for the defined benefit pension plan or be able to obtain additional funding on acceptable terms or at all.

- o GROW PUBLICARD BUSINESS THROUGH ACQUISITIONS. An important element of the Company's strategic plan involves the acquisition of businesses in areas outside the technology sectors in which the Company has recently been engaged, so as to diversify its asset base. The Company made a series of successful acquisitions in the 1980's and early 1990's and will endeavor to replicate this success by seeking out businesses meeting a targeted profile. Implementation of this plan will require the Company to obtain funding. However, there can be no assurance that the Company will be able to obtain funding on acceptable terms or at all.
- o EXPAND INFINEER MARKET REACH. Management believes that Infineer can expand the market reach of its smart card solutions by forming strategic marketing and distribution relationships with a number of key industry players both in the United Kingdom and elsewhere. Infineer has a strong market position in the United Kingdom educational sector, and to a lesser extent in the corporate market, and intends on leveraging this market position to select markets outside of the United Kingdom.
- o EXPAND INFINEER PRODUCT OFFERING. Management believes that Infineer can expand its total product offering, technologies and market position by partnering with companies engaged in complementary businesses or by acquiring or licensing complementary technologies and products. Infineer intends to form relationships, which will provide a "complete" solution to the educational and corporate campus market places.

PUBLICARD PRODUCTS AND SOLUTIONS

PubliCARD designs and develops smart card software and hardware solutions for campus environments. The Company's solutions facilitate card-based payment for a wide variety of services typically found on both corporate and education sites. Infineer's card-based solutions are currently installed in over 350 sites, primarily in educational and corporate sites in the United Kingdom. The Company's products and solutions include the following:

- o CHIPNET. The Company provides transaction solutions using a single smart card that facilitate smart card based payments for a wide variety of services typically found on both corporate and educational sites. Implementing a cashless system has many benefits including improved cash flow, enhanced service levels and superior management information. Uniquely adapted to the campus environment and users, ChipNet enables identification, payment at cafeterias, vending machines, photocopiers and printers, and network access to PCs. ChipNet also integrates with third party library management, campus wide access control and time and attendance tracking. The ChipNet solution comprises application software, hardware and smart cards.

Edgar Filing: PUBLICARD INC - Form 10-K

multi-application smart card. The card can then be used to pay for cafeteria and vending machine purchases, as well as for copier and networked printer usage. Each time a transaction takes place, all details are recorded, such as the date and time, user and item purchased. These are then processed by a robust back office software package, utilizing a powerful tracking tool that delivers accurate management information on sales and card activity. As the ChipNet solution is based around an open database platform, integration with third party cards, applications and electronic purses can be facilitated quickly and easily.

- o CHIPNET QUICKSTART. ChipNet QuickStart is a user-friendly smart card payment system aimed at libraries and Internet cafes, which will simplify administration and payment for PC log-on, networked printing and photocopying. ChipNet QuickStart has been developed to fill a gap in the market for an entry-level smart card solution providing an administration-free payment system. Although ChipNet QuickStart offers the capacity to run without being networked, it also contains a built-in upgrade path to ChipNet.
- o SMARTPRINT CENTRAL. The SmartPrint CENTRAL solution combines a print release software package and a card reader to provide a dedicated print release station. The user logs on at any networked PC and, having created or edited their document, sends it across the network to the printer. In order to have the print job printed, the user must physically go to the print release PC, which would typically be located beside the printer, select their print job from the print queue and insert a card for payment. When payment has taken place, the job is printed. SmartPrint CENTRAL is available for the standard card technologies provided by Infineer, namely smart card, revaluable magnetic card and disposable magnetic card.
- o EASYCARD. The EasyCard product line delivers a complete and cost effective solution to the problem of vending prints, copies and faxes. Operating with either low cost disposable magnetic cards or rechargeable cards in two formats, slim and ISO standard, EasyCard is a simple to use solution, ideal for schools, colleges, universities, libraries and copy shops. Users carry cards, featuring either a monetary or copy value, and the appropriate amount is deducted each time a service is used. Both analogue and digital copiers can now contribute valuable revenue to institutions by charging for their use. For those customers not paying in advance for services, account cards can be used, recording the use of a range of services against an individual or department. A full range of support products offer card acceptance at vending machines, cafeterias, self-service card centers and encoding stations. EasyCard delivers a range of solutions from "sell and forget" disposable magnetic card operated formats to combination solutions accepting disposable, rechargeable and account cards with full card personalization for access control and time and attendance tracking.

SALES AND MARKETING

PubliCARD sells and distributes its products through a range of distribution channels, including value-added resellers, value-added distributors and other distributors. PubliCARD also sells and distributes its products directly to end-users in the United Kingdom through its direct sales force. PubliCARD has approximately 20 employees directly engaged in the sale, distribution and support of its products in the United Kingdom and is represented by 15 independent distributors and resellers.

In support of its sales strategies, PubliCARD also makes use of direct mail campaigns to its customers, advertising in targeted trade media and at trade shows and conferences. PubliCARD intends to continue seeking to form strategic relationships with key industry players to provide it with access to

Edgar Filing: PUBLICARD INC - Form 10-K

leading edge technology, marketing and sales leverage, and access to key customers and accounts.

RESEARCH AND DEVELOPMENT

Research and development is a key element to PubliCARD's future success and competitive position. PubliCARD develops an annual technology development plan as an integral part of its business planning process. This plan identifies new areas requiring development in support of identified business opportunities, as well as a program of maintenance and enhancement for PubliCARD's existing solutions.

PubliCARD's product development is organized to quickly bring products from concept to product introduction. PubliCARD's future success will depend upon its ability to enhance existing products and to develop and to introduce new products on a timely basis that keep pace with technological developments and emerging industry standards and address the increasingly sophisticated needs of its customers. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results -- Our future success depends on our ability to keep pace with technological changes and introduce new products in a timely manner."

6

COMPETITION

Competition in the markets in which PubliCARD operates is intense and is characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions and rapid changes in customer requirements. To maintain and improve its competitive position, PubliCARD must continue to develop and introduce, on a timely and cost-effective basis, new products and product features that keep pace with technological developments and emerging industry standards and address the increasingly sophisticated needs of its customers. The principal competitive factors affecting the market for PubliCARD's technology products are the product's technical characteristics and price, customer service and competitor reputation, as well as competitor reputation positioning and resources. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results -- The highly competitive markets in which we operate could have a material adverse effect on our business and operating results." PubliCARD will be required to continue to respond promptly and effectively to the challenges of technological changes and its competitors' innovations.

The market for smart card technology solutions is new, intensely competitive and rapidly evolving. PubliCARD expects competition to continue to increase both from existing competitors and new market entrants. PubliCARD's primary competition currently comes from or is anticipated to come from companies offering campus environment solutions, including small value electronic cash systems and database management solutions, such as G2 Integrated Solutions (Girovend), MARS, Cunninghams, Uniware, Diebold, and Schlumberger.

Many of PubliCARD's current and potential competitors have longer operating histories and significantly greater financial, technical, sales, customer support, marketing and other resources, as well as greater name recognition and a larger installed base of their products and technologies than PubliCARD. Many of these companies have broader customer relationships that could be leveraged, including relationships with many of PubliCARD's customers. These companies also have more established customer support and professional services organizations than PubliCARD does. In addition, a number of companies with significantly greater resources than PubliCARD could attempt to increase

Edgar Filing: PUBLICARD INC - Form 10-K

their presence in the marketplace by acquiring or forming strategic alliances with competitors of PublicARD, resulting in increased competition.

INTELLECTUAL PROPERTY

PublicARD's success depends significantly upon its proprietary technology. PublicARD relies on a combination of patent, copyright and trademark laws, trade secrets, confidentiality agreements and contractual provisions to protect its proprietary rights. PublicARD seeks to protect its software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. PublicARD generally enters into confidentiality and non-disclosure agreements with its employees and with key vendors and suppliers. Despite PublicARD's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of PublicARD's products or to obtain and use information that PublicARD regards as proprietary. Moreover, effective copyright and trade secret protection may be unavailable or limited in certain foreign countries, making the possibility of misappropriation of PublicARD's proprietary technology more likely. The steps taken by PublicARD to protect its proprietary technology might not prevent misappropriation of such technology, and such protections may not preclude competitors from developing products with functionality or features similar to PublicARD's products.

PublicARD currently has various trademarks and trademark applications registered and pending in the United States. PublicARD will continue to evaluate the registration of additional trademarks as it deems appropriate. While PublicARD currently has a number of patents issued and various patent applications pending, it doesn't believe that these patents are of benefit to current operations. There can be no assurance that any new patents will be issued, that PublicARD will develop proprietary products or technologies that are patentable, that any issued patent will provide PublicARD with any competitive advantages or will not be challenged by third parties or that the patents of others will not have a material adverse effect on PublicARD's business and operating results.

In the event that PublicARD's technology or products are determined to infringe upon the rights of others, PublicARD could be required to cease using such technology and stop selling such products, if PublicARD is unable to obtain licenses to utilize such technology. There can be no assurance that PublicARD would be able to obtain such licenses in a timely manner on acceptable terms and conditions, and the failure to do so could have a material adverse effect on PublicARD's financial condition and results of operations. If PublicARD is unable to obtain such licenses, it could encounter significant delays in product market introductions while it attempted to design around the infringed-upon patents or rights, or could find the development, manufacture or sale of products requiring such license to be foreclosed. In addition, patent disputes are common in the smart card and computer industries and there can be no assurance that PublicARD will have the financial resources to enforce or defend a patent infringement or proprietary rights action.

PublicARD expects that software product developers will be increasingly subject to infringement claims as the number of products and competitors in the smart card market grows. Any such claims, with or without merit, could be time-consuming, result in costly litigation and diversion of technical and management personnel, cause product shipment delays or require PublicARD to develop non-infringing technology or enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to PublicARD or at all. In the event of a successful claim of product infringement against PublicARD and failure or inability of PublicARD to develop

Edgar Filing: PUBLICARD INC - Form 10-K

non-infringing technology or license the infringed or similar technology, PublicARD's business, financial condition and results of operations could be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors That May Affect Future Results -- Our proprietary technology is difficult to protect and may infringe on the intellectual proprietary rights of third parties."

EMPLOYEES

As of March 24, 2004, PublicARD had approximately 47 employees, of which 20 are involved in sales, marketing and support, 9 in product development, 9 in manufacturing and 9 in administration. The Company considers its employee relations to be good.

SEGMENT INFORMATION

The Company's sole operating activities involve the deployment of smart card solutions for educational and corporate sites. As such, the Company reports as a single segment. Revenues by geographical areas for the years ended December 31, 2003, 2002 and 2001 are as follows (in thousands):

	2003 -----	2002 -----	2001 -----
United States	\$ 869	\$ 1,029	\$ 1,727
Europe	3,467	3,445	3,671
Rest of world	445	131	254
	-----	-----	-----
	\$ 4,781	\$ 4,605	\$5,652
	=====	=====	=====

The Company has operations in the United States and United Kingdom. Identifiable tangible assets by country as of December 31, 2003, 2002 and 2001 are as follows (in thousands):

	2003 -----	2002 -----	2001 -----
United States	\$ 4,542	\$ 4,842	\$ 12,037
United Kingdom	2,035	2,235	2,557
	-----	-----	-----
	\$ 6,577	\$ 7,077	\$ 14,594
	=====	=====	=====

See also the Company's Financial Statements beginning on page F-1.

ITEM 1A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth information about the executive officers of the Company as of March 24, 2004. The business address of each executive officer is the address of the Company, 620 Fifth Avenue, New York, New York 10020.

Name ----	Age ---	Office and Position -----
Harry I. Freund	64	Director, Chairman of the Board and Chairman
Jay S. Goldsmith	60	Director, Vice Chairman of the Board and Vice Chairman
Antonio L. DeLise	42	Director, President, Chief Executive Officer, Chief Financial Officer and Secretary

Edgar Filing: PUBLICARD INC - Form 10-K

There is no family relationship between any of the executive officers of the Company. Each officer is elected to serve for a term ending with the next annual meeting of shareholders.

Mr. Freund has been a Director of the Company since April 12, 1985, Chairman of the Board of Directors since December 1985 and Chairman since October 1998. Since 1975, Mr. Freund has been Chairman of Balfour Investors Inc. ("Balfour"), a merchant banking firm that had previously been engaged in a general brokerage business.

Mr. Goldsmith has been a Director of the Company since April 12, 1985, Vice Chairman of the Board of Directors since December 1985 and Vice Chairman since October 1998. Since 1975, Mr. Goldsmith has been President of Balfour.

Mr. DeLise joined the Company in April 1995 as Vice President, Chief Financial Officer and Secretary. He was appointed to the Board of Directors in July 2001 and was elected to the additional posts of President in February 2002 and Chief Executive Officer in August 2002.

ITEM 2. PROPERTIES

The Company leases the following facilities, which are believed to be adequate for its present needs.

PREMISES	PURPOSE	YEAR OF LEASE EXPIRATION	SQUARE FOOTAGE
-----	-----	-----	-----
New York, NY	Executive offices for PublicARD	2004	5,600
New York, NY	Executive offices for PublicARD	2007	3,600
Bangor, Northern Ireland	Office and manufacturing	2008	12,000

The Company leases office space in New York City under a lease expiring on May 1, 2004. In February 2004, the Company entered a new lease for office space in New York City with a term commencing on May 1, 2004 and expiring on April 30, 2007.

Balfour occupies a portion of the office space leased by the Company in New York City. The Chairman and Vice Chairman of the Company's Board of Directors are the only shareholders of Balfour. Balfour pays to the Company 50% of the rent and occupancy costs paid by the Company under its lease, including base rent, electricity, water, real estate tax escalations and operation and maintenance escalations. The base rent payable by Balfour is approximately \$11,000 per month.

ITEM 3. LEGAL PROCEEDINGS

On May 28, 2002, a lawsuit was filed against the Company in the Superior Court of the State of California, in the County of Los Angeles by Leonard M. Ross and affiliated entities alleging, among other things, misrepresentation and securities fraud. The lawsuit names the Company and four of its current and former executive officers and directors as the defendants. The plaintiffs seek monetary and punitive damages for alleged actions made by the defendants in order to induce the plaintiffs to purchase, hold or refrain from selling PublicARD common stock. The plaintiffs allege that the defendants made a series of material misrepresentations, misleading statements, omissions and

Edgar Filing: PUBLICARD INC - Form 10-K

concealments, specifically and directly to the plaintiffs concerning the nature, existence and status of contracts with certain purchasers, the nature and existence of investments in the Company by third parties, the nature and existence of business relationships and investments by the Company. The Company believes it has meritorious defenses to the allegations and intends to defend vigorously.

In November 2002, the Company and the individual defendants served with the action filed a demurrer seeking the dismissal of six of the plaintiffs' nine purported causes of action. In January 2003, the court ruled in favor of the demurrer and dismissed the entire complaint. The plaintiffs were granted the right to replead and subsequently filed an amended complaint in February 2003. The Company and individual defendants filed a second demurrer in March 2003. In June 2003, the court ruled in favor of the demurrer and dismissed, without leave to amend, six of the eleven purported causes of action in the amended complaint. The lawsuit is in the early stages. Preliminary discovery has just commenced and no trial date has been set. Consequently, at this time it is not reasonably possible to estimate the damages, or range of damages, if any, that the Company might incur in connection with this action. However, if the outcome of this lawsuit is unfavorable to the Company, it could have a material adverse effect on the Company's operations, cash flow and financial position.

9

The Company incurred approximately \$200,000 in defense costs in 2002. No additional costs have been incurred in 2003. Notice of the commencement of this action has been given to the Company's directors and officers liability insurance carriers. The Company's directors and officers liability insurance carriers are funding the additional costs of defending this action, subject to the carriers' reservation of rights.

Various other legal proceedings are pending against the Company. The Company considers all such other proceedings to be ordinary litigation incident to the character of its business. Certain claims are covered by liability insurance. The Company believes that the resolution of these claims to the extent not covered by insurance will not, individually or in the aggregate, have a material adverse effect on the consolidated financial position or consolidated results of operations of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On December 8, 2003, an annual meeting of shareholders of the Company was held at which directors were elected to serve until their successors shall have been elected and shall have qualified. The appointment of Deloitte & Touche LLP as the Company's outside auditors for the year ending December 31, 2003 was also ratified. The voting results were as follows:

Election of directors -----	For ---	Against -----	Abstain -----
Harry I. Freund	20,764,787	-	979,861
Jay S. Goldsmith	20,763,887	-	980,761
Clifford B. Cohn	20,772,437	-	972,211
L.G. Schafran	21,382,612	-	362,036
Emil Vogel	21,381,712	-	362,936
Antonio L. DeLise	21,374,162	-	370,486
 Ratification of auditors	 21,653,833	 71,369	 19,446

10

Edgar Filing: PUBLICARD INC - Form 10-K

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

- (a) PubliCARD's common stock was listed on the Nasdaq National Market from December 22, 1998 to May 1, 2002. Effective May 2, 2002, the listing of PubliCARD common stock was transferred to the Nasdaq SmallCap Market. On March 19, 2003, the Company received a Nasdaq Staff Determination letter indicating that the Company failed to comply with the minimum bid price requirement for continued listing on the Nasdaq SmallCap Market and that the Company's common stock was therefore subject to delisting. The board of directors of the Company decided not to appeal the delisting determination. Effective March 28, 2003, the Company's common stock began trading on the OTC Bulletin Board. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results - Our stock was delisted from the Nasdaq System." The following table sets forth the high and low closing sale prices of PubliCARD's common stock for the calendar periods indicated (in dollars):

	2003		2002	
	HIGH	LOW	HIGH	LOW
First Quarter	.16	.06	.27	.09
Second Quarter	.09	.042	.52	.11
Third Quarter	.09	.045	.26	.10
Fourth Quarter	.12	.04	.31	.08

- (b) There were approximately 2,300 registered holders of record of common stock of the Company as of March 24, 2004.
- (c) The Company did not pay dividends on its common stock during the prior five fiscal years and does not anticipate paying dividends in the foreseeable future.

11

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data of the Company presented below for the five year period ended December 31, 2003 have been derived from the consolidated financial statements of the Company. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Consolidated Financial Statements and the Notes thereto included elsewhere in this Form 10-K.

	YEAR ENDED DECEMBER 31				
	2003	2002	2001	2000	1999
	(in thousands, except per share amounts)				
STATEMENT OF OPERATIONS DATA:					
Revenues	\$ 4,781	\$ 4,605	\$ 5,652	\$ 5,543	\$ 5,543
Cost of sales	2,316	2,455	2,875	2,913	2,913

Edgar Filing: PUBLICARD INC - Form 10-K

Inventory adjustment	-	-	1,661	-	-
Gross margin	2,465	2,150	1,116	2,630	-
Operating expenses:					
General and administrative	2,708	3,235	4,625	6,664	-
Sales and marketing	1,844	1,877	3,413	7,562	-
Product development	584	605	2,442	4,364	-
Stock compensation expense	-	-	86	1,116	-
Amortization of goodwill and intangibles	40	576	1,824	2,638	-
Impairment of goodwill and intangibles	-	1,365	-	-	-
Repositioning and other special charges	-	-	5,656	-	-
	5,176	7,658	18,046	22,344	-
Loss from operations	(2,711)	(5,508)	(16,930)	(19,714)	(1,000)
Other income (expenses):					
Interest income	15	71	476	936	-
Interest expense	(12)	(39)	(65)	(100)	-
Cost of retirement benefits - non-operating	(903)	(795)	(788)	(812)	-
Write-down of minority investment	(3,000)	(2,068)	-	-	-
Gain on insurance recoveries	4,590	-	-	-	-
Other income (expense)	428	80	136	15	-
	1,118	(2,751)	(241)	39	-
Loss from continuing operations	(1,593)	(8,259)	(17,171)	(19,675)	(1,000)
Discontinued operations:					
Income (loss) from discontinued operations	-	-	-	-	-
Gain (loss) on disposition of discontinued operations	-	1,066	2,350	4,275	-
Net loss	\$ (1,593)	\$ (7,193)	\$ (14,821)	\$ (15,400)	\$ (1,000)
Basic and diluted earnings (loss) per common share:					
Continuing operations	\$ (.07)	\$ (.34)	\$ (.71)	\$ (.84)	\$ (1.00)
Discontinued operations	-	.04	.10	.18	-
	\$ (.07)	\$ (.30)	\$ (.61)	\$ (.66)	\$ (1.00)

12

AS OF DECEMBER 31

	2003	2002	2001	2000	
	-----	-----	-----	-----	-----
	(in thousands)				
BALANCE SHEET DATA:					
Working capital (deficiency)	\$ (987)	\$ (548)	\$ 2,631	\$ 13,168	\$ (1,000)

Edgar Filing: PUBLICARD INC - Form 10-K

Total assets	7,399	7,939	17,397	37,179
Other non-current liabilities	3,552	4,990	5,328	6,010
Shareholders' equity (deficit)	(2,928)	(1,002)	7,484	23,578

No dividends on common shares have been declared or paid during the last five years.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

PublicARD was incorporated in the Commonwealth of Pennsylvania in 1913. PublicARD entered the smart card industry in early 1998, and began to develop solutions for the conditional access, security, payment system and data storage needs of industries utilizing smart card technology. In 1998 and 1999, the Company made a series of acquisitions to enhance its position in the smart card industry. In March 2000, PublicARD's Board of Directors (the "Board"), together with its management team, determined to integrate its operations and focus on deploying smart card solutions, which facilitate secure access and transactions. To effect this new business strategy, in March 2000, the Board adopted a plan of disposition pursuant to which the Company divested its non-core operations. See Note 9 to the Consolidated Financial Statements for a discussion on the disposition plan.

In July 2001, after evaluating the timing of potential future revenues, PublicARD's Board decided to shift the Company's strategic focus. While the Board remained confident in the long-term prospects of the smart card business, the timing of public sector and corporate initiatives in wide-scale, broadband environments utilizing the Company's smart card reader and chip products had become more uncertain. Given the lengthened time horizon, the Board did not believe it would be prudent to continue to invest the Company's current resources in the ongoing development and marketing of these technologies. Accordingly, the Board determined that shareholders' interests will be best served by pursuing strategic alliances with one or more companies that have the resources to capitalize more fully on the Company's smart card reader and chip-related technologies. In connection with this shift in the Company's strategic focus, workforce reductions and other measures were implemented to achieve cost savings. See Note 10 to the Consolidated Financial Statements for a discussion on the repositioning charge associated with this action.

At present, PublicARD's sole operating activities are conducted through its Infineer Ltd. ("Infineer") subsidiary, which designs smart card platform solutions for educational and corporate sites. The Company's future plans revolve around a potential acquisition strategy that would focus on businesses in areas outside the high technology sector while continuing to support the expansion of the Infineer business. However, the Company will not be able to implement such plans unless it is successful in obtaining additional funding, as to which no assurance can be given.

PublicARD's financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the Consolidated Financial Statements, the Company has incurred operating losses, has a working capital deficiency and requires additional capital to meet its obligations and accomplish the Company's business plan, which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the Company's failure to obtain funding or inability to continue as a going concern.

Edgar Filing: PUBLICARD INC - Form 10-K

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

REVENUES. Revenues are generated from product sales, technology and software license fees, installation and maintenance contracts. Consolidated revenues increased to \$4.8 million in 2003 compared to \$4.6 million for 2002 driven by a 6% increase from foreign currency changes. Excluding the impact of foreign currency changes, sales in 2003 decreased by 2%.

GROSS MARGIN. Cost of sales consists primarily of material, personnel costs and overhead. Gross margin as a percentage of sales increased to 52% in 2003 from 47% in 2002. The gross margin improvement resulted from higher margins generated from certain custom development projects and increased service revenue in the United Kingdom.

13

SALES AND MARKETING EXPENSES. Sales and marketing expenses consist primarily of personnel and travel costs, public relations, trade shows and marketing materials. Sales and marketing expenses were \$1.8 million in 2003 compared to \$1.9 million in 2002.

PRODUCT DEVELOPMENT EXPENSES. Product development expenses consist primarily of personnel and travel costs, independent consultants and contract engineering services. Product development expenses include expenses associated with the development of new products and enhancements to existing products. Product development expenses amounted to \$584,000 in 2003 compared to \$605,000 in 2002.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses consist primarily of personnel and related costs for general corporate functions, including finance and accounting, human resources, risk management and legal. General and administrative expenses for the year ended December 31, 2003 decreased to \$2.7 million from \$3.2 million for 2002. The decrease in expense is mainly due to a \$400,000 decline in salary costs due to a headcount reduction of three employees.

AMORTIZATION OF INTANGIBLES. In accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), no amortization expense for goodwill will be recorded in current and future periods. Goodwill and other intangibles will be subject to an annual review for impairment or earlier if circumstances or events indicate that impairment has occurred. This may result in future write-downs or the write-off of such assets. Amortization expense in 2003 and 2002 relates to the continuing amortization of definite lived intangibles. Amortization expense decreased from \$576,000 in 2002 to \$40,000 in 2003 as a result of an impairment charge recorded in 2002, which significantly reduced the carrying value of intangibles.

OTHER INCOME AND EXPENSE. Interest income decreased to \$15,000 from \$71,000 in the prior year principally due to lower interest rates and investment balances. Cost of retirement benefits, which represents amounts related to discontinued product lines and related plant closings in prior years, principally relates to pension expense associated with the Company's frozen defined benefit pension plan.

During 2003, the Company entered into three binding settlements with various historical insurers that resolved certain claims (including certain future claims) under policies of insurance issued to the Company by those

Edgar Filing: PUBLICARD INC - Form 10-K

insurers. As a result of the settlements, after allowance for associated expenses, offsetting adjustments and amounts held in escrow, the Company received net proceeds of approximately \$4.1 million in 2003. Pursuant to one of the settlements, an additional net amount of approximately \$470,000 will be held in escrow for up to three years. The Company recognized a gain from these settlements of approximately \$4.6 million in 2003.

In 2003 and 2002, other expense includes charges for an impairment of the Company's minority investment in TecSec of \$3.0 million and \$2.1 million, respectively. In addition, for 2002, other expense includes a \$200,000 charge in connection with the defense of a shareholder lawsuit.

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

REVENUES. Consolidated revenues decreased to \$4.6 million in 2002 compared to \$5.7 million for 2001. The 2001 figure included \$1.0 million of revenues associated with the smart card reader and chip business, which the Company exited in July 2001. Sales related to smart card solutions for educational and corporate sites were comparable between years.

GROSS MARGIN. Cost of sales in 2001 included an adjustment of \$1.7 million for the write-off of inventories associated with the July 2001 repositioning action. Excluding the inventory adjustment, gross margin as a percentage of sales decreased to 47% in 2002 from 49% in 2001.

SALES AND MARKETING EXPENSES. Sales and marketing expenses were \$1.9 million in 2002 compared to \$3.4 million in 2001. The decrease in expense is attributed to the July 2001 repositioning action.

PRODUCT DEVELOPMENT EXPENSES. Product development expenses amounted to \$605,000 in 2002 compared to \$2.4 million in 2001. The decrease in expense is attributed to the July 2001 repositioning action.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses for the year ended December 31, 2002 decreased to \$3.2 million from \$4.6 million for 2001. The decrease in expense is mainly due to an aggregate reduction in corporate expenses of approximately \$1.6 million associated with various cost containment initiatives. The initiatives resulted in a decline in salaries and benefits of \$1.0 million, professional fees of \$176,000 and employee business expense of \$162,000.

14

STOCK COMPENSATION EXPENSE. Stock-based compensation recorded in 2001 principally relates to the issuance of stock awards and a below market stock option grant to an executive hired in late 1999.

AMORTIZATION OF GOODWILL AND INTANGIBLES. Amortization expense in 2002 of \$576,000 related to the continuing amortization of definite lived intangibles. Amortization expense in 2001 of \$1.8 million included goodwill amortization of \$1.1 million. Pursuant to SFAS No. 142, amortization of goodwill ceased after 2001.

IMPAIRMENT OF GOODWILL AND INTANGIBLES. The Company performed an initial review for impairment of goodwill as of January 1, 2002 and determined that no impairment existed at that date. The Company determined the fair value of its sole reporting unit primarily using two approaches: a market approach technique and a discounted cash flow valuation technique. The market approach relied primarily on the implied fair value using a multiple of revenues for several entities with comparable operations and economic characteristics. Significant

Edgar Filing: PUBLICARD INC - Form 10-K

assumptions used in the discounted cash valuation included estimates of future cash flows, future short-term and long-term growth rates and estimated cost of capital for purposes of arriving at a discount factor.

In performing its annual goodwill impairment test at the end of the fourth quarter of 2002, the Company determined that goodwill had been impaired. Based on comparing the values derived from the two techniques described above to the carrying value of the reporting unit, the Company recorded a goodwill impairment loss of \$364,000 in the fourth quarter of 2002. The Company attributed the impairment loss to the value of a comparable entity that was sold in a transaction in late 2002, the significant 2002 operating loss for the reporting unit and lower forecasted revenue growth due to a continued overall decline in technology spending and a shortage of capital available to invest in the reporting unit.

In the fourth quarter of 2002, the Company determined that its intangible assets had been impaired and recorded an impairment loss of \$1.0 million. The Company attributes the impairment loss to the significant 2002 operating loss for the reporting unit and lower forecasted revenue growth due to a continued overall decline in technology spending and a shortage of capital available to invest in the reporting unit.

OTHER INCOME AND EXPENSE. Interest income decreased to \$71,000 from \$476,000 in the prior year principally due to lower investment balances. Cost of retirement benefits relates to pension expense associated with the Company's frozen defined benefit pension plan. In addition, in 2002 other expenses included a \$2.1 million charge for an impairment of the Company's minority investment in TecSec and a \$200,000 charge in connection with the defense of a shareholder lawsuit.

LIQUIDITY

The Company has financed its operations over the last several years primarily through funds received from the sale of a non-core businesses in 2000 and insurance recoveries in 2003. During the year ended December 31, 2003, cash, including short-term investments, increased by \$2.3 million to \$3.6 million as of December 31, 2003.

Operating activities utilized cash of \$2.2 million in 2003 and principally consisted of the net loss of \$1.6 million plus a gain on insurance recoveries of \$4.6 million offset by depreciation and amortization of \$193,000, a decrease in net assets and liabilities of \$1.1 million and a \$3.0 million minority investment impairment charge. The decrease in net assets and liabilities is largely attributable to the non-payment of the 2003 minimum required contributions to the Company's frozen defined benefit pension plan of approximately \$1.4 million.

Investing activities provided cash of \$4.5 million in 2003 and consisted principally of \$4.1 million of proceeds received from insurance recoveries.

The Company has experienced negative cash flow from operating activities in the past and expects to experience negative cash flow in 2004 and beyond. In addition to funding operating and capital requirements and corporate overhead, future uses of cash include the following:

15

- o The Company sponsors a defined benefit pension plan, which was frozen in 1993. As of December 31, 2003, the actuarial present value of accrued liabilities exceeded the plan assets by approximately \$6.9 million

Edgar Filing: PUBLICARD INC - Form 10-K

(determined on an ongoing basis). If the plan is continued, the required contribution to the plan is approximately \$3.9 million in 2004. Absent some action by the Company, the annual contribution requirements beyond 2004 would continue to be significant. In view of its financial condition, in January 2003, the Company filed a notice with the Pension Benefit Guaranty Corporation ("PBGC") seeking a "distress termination" of the Plan. If the PBGC determines that the Company meets one of the tests for such a termination, the Plan will terminate and the PBGC will become responsible for meeting future retirement obligations to participants (within certain limitations). The Company would be liable to the PBGC for the amount of the unfunded guaranteed benefit obligation. The Company believes that on a termination basis, the Plan's liabilities could exceed the value of its assets by in excess of \$7.0 million. In addition, the Company did not make the required contributions that were due to the Plan in 2003 which aggregate approximately \$1.4 million. The Company has initiated discussions with the PBGC concerning the termination of the Plan and its repayment obligation to the PBGC if the Plan is terminated (including the timing of its repayment obligation). It is not possible to predict the outcome of such discussions.

- o The Company and certain current and former officers are defendants in a lawsuit alleging, among other things, misrepresentation and securities fraud. The Company believes that it has meritorious defenses to the allegations and intends to defend itself vigorously. The cost of defending against this action could be significant, and if the Company is not successful in defending itself, the Company may be required to pay the plaintiff's damages, which could have a material adverse effect on the Company's business and operations.
- o The Company leases certain office space, vehicles and office equipment under operating leases that expire over the next five years. Minimum future payments for operating leases having initial or remaining non-cancelable terms in excess of one year aggregates \$1.2 million.

The Company will need to raise additional capital that may not be available to it. If the distress termination of the Company's defined benefit pension plan for which the Company has applied is completed (see Note 5 to the Notes to Consolidated Financial Statements), the Company's 2003 and 2004 funding requirements to the plan could be eliminated, in which case management believes that existing cash and short-term investments may be sufficient to meet the Company's operating and capital requirements at the currently anticipated levels through December 31, 2004. However, additional capital will be necessary in order to operate beyond December 2004 and to fund the current business plan and other obligations. While the Company is actively considering various funding alternatives, it has not secured or entered into any arrangements to obtain additional capital. There can be no assurance that the Company will be able to eliminate the 2003 or 2004 funding requirements for the defined benefit pension plan or be able to obtain additional funding on acceptable terms or at all. If the Company cannot raise additional capital to continue its present level of operations, it may not be able to meet its obligations, take advantage of future acquisition opportunities or further develop or enhance its product offering, any of which could have a material adverse effect on its business and results of operations.

The Company currently has no capacity for commercial debt financing. Should such capacity become available it may be adversely affected in the future by factors such as higher interest rates, inability to borrow without collateral, and continued operating losses. Borrowings may also involve covenants limiting or restricting its operations or future opportunities.

As a result of a failure to meet certain continuing listing requirements of the Nasdaq National Market ("National Market"), the Company transferred the

Edgar Filing: PUBLICARD INC - Form 10-K

listing of its common stock to the Nasdaq SmallCap Market ("SmallCap Market") effective May 2, 2002. On March 19, 2003, the Company received a Nasdaq Staff Determination letter indicating that the Company failed to comply with the minimum bid price requirement for continued listing on the SmallCap Market and that the Company's common stock was therefore subject to delisting. The Board of the Company decided not to appeal the delisting determination. Effective March 28, 2003, the Company's common stock no longer traded on the Nasdaq SmallCap Market. On March 28, 2003 the Company's common stock began trading on the OTC Bulletin Board. As a result of the delisting, the liquidity of the common stock may be adversely affected. This could impair the Company's ability to raise capital in the future. If additional capital is raised through the issuance of equity securities, the Company's stockholders' percentage ownership of the common stock will be reduced and stockholders may experience dilution in net book value per share, or the new equity securities may have rights, preferences or privileges senior to those of its common stockholders.

If the Company's liquidity does not improve, it may be unable to continue as a going concern and could seek bankruptcy protection. Such an event may result in the Company's common and preferred stock being negatively affected or becoming worthless. The auditors' report on the Company's Consolidated Financial Statements for the year ended December 31, 2003 contains an emphasis paragraph concerning substantial doubt about the Company's ability to continue as a going concern.

16

CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's commitments as of December 31, 2003 (in thousands):

	TOTAL	PAYMENTS DUE BY PERIOD			MOR
		LESS THAN 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	
	-----	-----	-----	-----	-----
Operating lease obligations	\$ 1,164	\$ 356	\$ 631	\$ 177	
Other long-term liabilities:					
Pension liability and other retiree benefits	7,122	3,896	3,136	60	
Other long-term obligations	296	-	296	-	
	-----	-----	-----	-----	
Total	\$ 8,582	\$ 4,252	\$ 4,063	\$ 237	
	=====	=====	=====	=====	

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are more fully described in the Notes to the Company's Consolidated Financial Statements. Certain accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. The Company considers certain accounting policies related to revenue recognition, estimates of reserves for receivables and inventories, valuation of investments and goodwill and intangibles and pension accounting to be critical policies due to the estimation processes involved.

Edgar Filing: PUBLICARD INC - Form 10-K

REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE. Revenue from product sales and technology and software license fees is recorded upon shipment if a signed contract exists, the fee is fixed and determinable, the collection of the resulting receivable is probable and the Company has no obligation to install the product or solution. If the Company is responsible for installation, revenue from product sales and license fees is deferred and recognized upon client acceptance or "go live" date. Maintenance and support fees are deferred and recognized as revenue ratably over the contract period. Provisions are recorded for estimated warranty repairs and returns at the time the products are shipped. In the event changes in conditions cause management to determine that revenue recognition criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's credit worthiness. The Company continually monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that it has identified. While such credit losses have historically been within management's expectations and the provisions established, there is no assurance that the Company will continue to experience the same credit loss rates as in the past.

INVENTORIES. Inventories are stated at lower of cost (first-in, first-out method) or market. The Company periodically evaluates the need to record adjustments for impairment of inventory. Inventory in excess of the Company's estimated usage requirements is written down to its estimated net realizable value. Inherent in the estimates of net realizable value are management's estimates related to the Company's production schedules, customer demand, possible alternative uses and the ultimate realization of potentially excess inventory. During 2001, the decision to exit the smart card reader and chip business resulted in a significant inventory realizability adjustment. While management deems this adjustment to be non-recurring, a decrease in future demand for current products could result in an increase in the amount of excess inventories on hand.

VALUATION OF INVESTMENTS. The Company periodically assesses the carrying value of its minority-owned investments for impairment. This assessment is based upon a review of operations and indications of continued viability, such as subsequent rounds of financing. As discussed in Note 2 to the Consolidated Financial Statements, during 2003 and 2002 the Company made a determination that its minority-owned investments in TecSec and Mako were impaired and both investments have been written-off. Future recoveries, if any, will be recorded as income upon receipt.

IMPAIRMENT OF GOODWILL AND INTANGIBLES. Effective January 1, 2002, the Company adopted SFAS No. 142. In accordance with the guidelines of this statement, goodwill and indefinite lived intangible assets are no longer amortized but will be assessed for impairment on at least an annual basis. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment. The Company performed an initial review for impairment of goodwill as of January 1, 2002 and determined that no impairment existed at that date. The Company determined the fair value of its sole reporting unit primarily using two approaches: a market approach technique and a discounted cash flow valuation technique. The market approach relied primarily on the implied fair value using a multiple of revenues for several entities with comparable operations and economic characteristics. Significant assumptions used in the discounted cash valuation included estimates of future cash flows, future short-term and long-term growth rates and estimated cost of capital for purposes of arriving at a discount factor.

Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the net realizable of the asset.

PENSION OBLIGATIONS. The determination of obligations and expense for pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. These assumptions include, among others, the discount rate and the expected rate of return on plan assets. Actual results that differ from assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While management believes that the assumptions are appropriate, differences in actual experience or significant changes in assumptions may materially affect the pension obligation and future expense.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The interpretation addresses the disclosures to be made by a guarantor in its financial statements about its obligations under guarantee. In addition, it also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of a guarantee for the obligations the guarantor has undertaken in issuing that guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure provisions became effective December 15, 2002. The adoption of the recognition and measurement provisions did not have a material impact on the Company's Consolidated Financial Statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock based employee compensation and the effect of the method used on reported results. The provisions of SFAS No. 148 are effective for financial statements for fiscal years and interim periods ending after December 15, 2002. The disclosure provisions of SFAS No. 148 have been adopted by the Company. SFAS No. 148 did not require the Company to change to the fair value based method of accounting for stock-based compensation.

In January 2003, the FASB issued FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities". In December 2003, the FASB issued FIN No. 46 (Revised) ("FIN 46-R") to address certain FIN 46 implementation issues. This interpretation clarifies the application of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements" for companies that have interests in entities that are Variable Interest Entities (VIE) as defined under FIN 46. According to this interpretation, if a company has an interest in a VIE and is at risk for a majority of the VIE's expected losses or receives a majority of the VIE's expected gains it shall consolidate the VIE. FIN 46-R also requires additional disclosures by primary beneficiaries and other significant

Edgar Filing: PUBLICARD INC - Form 10-K

variable interest holders. For entities acquired or created before February 1, 2003, this interpretation is effective no later than the end of the first interim or reporting period ending after March 15, 2004, except for those VIE's that are considered to be special purpose entities, for which the effective date is no later than the end of the first interim or annual reporting period ending after December 15, 2003. For all entities that were acquired subsequent to January 31, 2003, this interpretation is effective as of the first interim or annual period ending after December 31, 2003. The adoption of the provisions of this interpretation did not have a material effect on the Company's Consolidated Financial Statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"). SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 amends certain other existing pronouncements. SFAS No. 149 is effective on a prospective basis for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of this statement did not have a material impact on the Company's Consolidated Financial Statements.

18

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement will become effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this statement did not have a material impact on the Company's Consolidated Financial Statements.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS No. 132 revised") that improves financial statement disclosures for defined benefit plans. The change replaces existing SFAS No. 132 disclosure requirements for pensions and other postretirement benefits and revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement of recognition of those plans required by SFAS No. 87, "Employers' Accounting for Pensions" or SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." SFAS No. 132 revised retains the disclosure requirements contained in the original SFAS No. 132, but requires additional disclosures about the plan assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132 revised is effective for annual and interim periods with fiscal years ending after December 15, 2003. The Company adopted the revised disclosure provisions.

In December 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 104, Revenue Recognition, which supersedes SAB No. 101, Revenue Recognition in Financial Statements. SAB No. 104 rescinds accounting guidance in SAB No. 101 related to multiple-element arrangements as this guidance has been superseded as a result of the issuance of EITF 00-21,

Edgar Filing: PUBLICARD INC - Form 10-K

"Accounting for Revenue Arrangements with Multiple Deliverables." The adoption of SAB No. 104 did not have a material impact on the Company's Consolidated Financial Statements.

FACTORS THAT MAY AFFECT FUTURE RESULTS

WE HAVE A HISTORY OF OPERATING LOSSES AND NEGATIVE CASH FLOW, WE HAVE ONGOING FUNDING OBLIGATIONS AND WE NEED TO RAISE ADDITIONAL CAPITAL THAT MAY NOT BE AVAILABLE TO US, ALL OF WHICH COULD LEAD US TO SEEK BANKRUPTCY PROTECTION. We have incurred losses and experienced negative cash flow from operating activities in the past, and we expect to incur losses and experience negative cash flow from operating activities in the foreseeable future. We incurred losses from continuing operations in 2001, 2002 and 2003 of approximately \$17.2 million, \$8.3 million and \$1.6 million, respectively. In addition, we experienced negative cash flow from operating activities of \$12.7 million, \$5.1 million and \$2.2 million in 2001, 2002 and 2003, respectively, and have a working capital deficiency of \$1.0 million as of December 31, 2003.

We sponsor a defined benefit pension plan (the "Plan") which was frozen in 1993. As of December 31, 2003, the present value of the accrued liabilities of our plan exceeded its assets by approximately \$6.9 million. (determined on an ongoing basis). If the Plan is continued, the required contribution to the Plan is approximately \$3.9 million for 2004 and we will be obligated to make continued contributions in future years which, absent some action by us, we expect that the annual contribution requirements beyond 2004 will continue to be significant. Future contribution levels depend in large measure on the mortality rate of plan participants, the discount rate required, and the expected return on the plan assets. In April 2002, we failed to make the required quarterly contribution to the Plan due April 15, 2002, in the amount of \$253,000. We made this contribution on June 11, 2002 and quarterly contributions of \$253,000 were made on a timely basis in July 2002 and October 2002. In view of our financial condition, in January 2003, we filed a notice with the PBGC seeking a "distress termination" of the Plan and did not make the contributions due to the Plan during 2003 which aggregate approximately \$1.4 million. If the PBGC determines that we meet one of the tests for such termination, the Plan will terminate and the PBGC will become responsible for meeting future retirement obligations to participants (within certain limitations). We would be liable to the PBGC for the amount of the unfunded benefit obligation. We believe that, on a termination basis, the Plan's liabilities could exceed the value of its assets by in excess of \$7.0 million. We have initiated discussions with the PBGC concerning the termination of the Plan and our repayment obligation to the PBGC if the Plan is terminated (including the timing of our repayment obligation). It is not possible to predict the outcome of such discussions.

19

We and certain current and former officers are defendants in a lawsuit alleging, among other things, misrepresentation and securities fraud. We believe that we have meritorious defenses to the allegations and intend to defend ourselves vigorously. The cost of defending against this action could be significant, and if the Company is not successful in defending itself, the Company may be required to pay the plaintiff's damages, which could have a material adverse effect on the Company's business and operations. See "We are unable to predict the extent to which the resolution of lawsuits pending against us could adversely affect our business". In addition, we have future non-cancelable operating lease obligations for office space, vehicles and office equipment aggregating \$1.2 million.

We will need to raise additional capital that may not be available to us.

Edgar Filing: PUBLICARD INC - Form 10-K

If the distress termination of the Plan for which we have applied is completed, our 2003 and 2004 funding requirements discussed above could be eliminated, in which case, we believe that existing cash and short term investments may be sufficient to meet our operating and capital requirements at the currently anticipated level through December 31, 2004. However, additional capital will be necessary in order to operate beyond December 2004 and to fund the current business plan and other obligations. While we are actively considering various funding alternatives, no arrangement to obtain additional funding has been secured or entered into. There can be no assurance that we will eliminate the past due and 2004 funding requirements for the Plan or be able to obtain additional funding, on acceptable terms or at all. If we cannot raise additional capital to continue at our present level of operations we may not be able to meet our obligations, take advantage of future acquisition opportunities or further develop or enhance our product offering, any of which could have a material adverse effect on our business and results of operations and could lead us to seek bankruptcy protection. The auditors' reports on the Company's Consolidated Financial Statements for the years ended December 31, 2001, 2002 and 2003 contained an emphasis paragraph concerning substantial doubt about the Company's ability to continue as a going concern.

We currently have no capacity for commercial debt financing. Should such capacity become available to us, we may be adversely affected in the future by factors such as higher interest rates, inability to borrow without collateral, and continued operating losses. Borrowings may also involve covenants limiting or restricting our operations or future opportunities.

OUR STOCK WAS DELISTED FROM THE NASDAQ SYSTEM. On February 14, 2002, we received a notice from The Nasdaq Stock Market ("Nasdaq") that our common stock had failed to maintain a minimum closing bid price of \$1.00 over the last 30 consecutive trading days as required by the Nasdaq National Market rules. We received a second notice on February 27, 2002, that our common stock also failed to maintain a market value of public float of \$5 million.

In accordance with the Nasdaq rules, we were required to regain compliance with the National Market minimum bid price requirement and with the market value of public float requirement by May 2002. Since our common stock continued to trade significantly below \$1.00, in April 2002, we filed an application to transfer the listing of our common stock to the SmallCap Market. The application was approved and our common stock listing was transferred to the SmallCap Market effective May 2, 2002. The SmallCap Market also has a minimum bid price requirement of \$1.00. We qualified for an extended grace period to comply with the SmallCap Market's \$1.00 minimum bid price requirement, which extended the delisting determination by Nasdaq until February 10, 2003.

On March 19, 2003, we received a Nasdaq Staff Determination letter indicating that we failed to comply with the minimum bid price requirement for continued listing on the SmallCap Market and that our common stock was therefore subject to delisting. Our board of directors decided not to appeal the delisting determination. Effective March 28, 2003, our common stock no longer traded on the SmallCap Market. On March 28, 2003, our common stock began trading on the OTC Bulletin Board.

As a result of the delisting, the liquidity of our common stock may be materially adversely affected. This could impair our ability to raise capital in the future. There can be no assurance that we will be able to obtain additional funding, on acceptable terms or at all. If we cannot raise additional capital to continue at our present level of operations we may not be able to meet our obligations, take advantage of future acquisition opportunities or further develop or enhance our product offering, any of which could have a material adverse effect on our business and results of operations and could lead us to seek bankruptcy protection.

Edgar Filing: PUBLICARD INC - Form 10-K

WE ARE UNABLE TO PREDICT THE EXTENT TO WHICH THE RESOLUTION OF LAWSUITS PENDING AGAINST US COULD ADVERSELY AFFECT OUR BUSINESS. On May 28, 2002, a lawsuit was filed against us in the Superior Court of the State of California,

20

in the County of Los Angeles by Leonard M. Ross and affiliated entities alleging, among other things misrepresentation and securities fraud. The lawsuit names four of our current and former executive officers and directors and us as the defendants. The plaintiffs seek monetary and punitive damages for alleged actions made by the defendants in order to induce the plaintiff to purchase, hold or refrain from selling our common stock. The plaintiffs allege that the defendants made a series of material misrepresentations, misleading statements, omissions and concealments, specifically and directly to the plaintiffs concerning the nature, existence and status of contracts with certain purchasers, the nature and existence of investments in us by third parties, the nature and existence of business relationships and investments by us. We believe we have meritorious defenses to the allegations and intend to defend vigorously.

In November 2002, we and the individual defendants served with the action filed a demurrer seeking the dismissal of six of the plaintiffs' nine purported causes of action. In January 2003, the court ruled in favor of the demurrer and dismissed the entire complaint. The plaintiffs were granted the right to replead and subsequently filed an amended complaint in February 2003. We and the individual defendants filed a second demurrer in March 2003. In June 2003, the court ruled in favor of the demurrer and dismissed, without leave to amend, six of the eleven purported causes of action in the amended complaint. The lawsuit is in the early stages. Preliminary discovery has just commenced and no trial date has been set. Consequently, at this time it is not reasonably possible to estimate the damages, or range of damages, if any, that we might incur in connection with this action. However, if the outcome of this lawsuit is unfavorable to us, it could have a material adverse effect on our operations, cash flow and financial position.

We incurred approximately \$200,000 in defense costs in 2002. No additional costs have been incurred in 2003. Notice of the commencement of this action has been given to our directors and officers liability insurance carriers. Our directors and officers liability insurance carriers are funding the additional costs of defending this action, subject to the carriers' reservation of rights.

WE FACE RISKS ASSOCIATED WITH ACQUISITIONS. An important element of our strategic plan involves the acquisition of businesses in areas outside the technology sectors in which we have recently been engaged, so as to diversify our asset base. However, we will only be able to engage in future acquisitions if we are successful in obtaining additional funding, as to which no assurance can be given. Acquisitions would require us to invest financial resources and may have a dilutive effect on our earnings or book value per share of common stock. We cannot assure you that we will consummate any acquisitions in the future, that any financing required for such acquisitions will be available on acceptable terms or at all, or that any past or future acquisitions will not materially adversely affect our results of operations and financial condition.

Our acquisition strategy generally presents a number of significant risks and uncertainties, including the risks that:

- o we will not be able to retain the employees or business relationships of the acquired company;
- o we will fail to realize any synergies or other cost reduction objectives expected from the acquisition;
- o we will not be able to integrate the operations, products, personnel and

Edgar Filing: PUBLICARD INC - Form 10-K

- facilities of acquired companies;
- o management's attention will be diverted to pursuing acquisition opportunities and integrating acquired products, technologies or companies and will be distracted from performing its regular responsibilities;
- o we will incur or assume liabilities, including liabilities that are unknown or not fully known to us at the time of the acquisition; and
- o we will enter markets in which we have no direct prior experience.

We cannot assure you that any of the foregoing will not materialize, which could have an adverse effect on our results of operations and financial condition.

THE MARKET'S ACCEPTANCE OF OUR PRODUCTS IS UNCERTAIN. Demand for, and market acceptance of, our software solutions and products are subject to a high level of uncertainty due to rapidly changing technology, new product introductions and changes in customer requirements and preferences. The success of our products or any future products depends upon our ability to enhance our existing products and to develop and introduce new products and technologies to meet customer requirements. We face the risk that our current and future products will not achieve market acceptance.

Our future revenues and earnings depend in large part on the success of these products, and if the benefits are not perceived sufficient or if alternative technologies are more widely accepted, the demand for our solutions may not grow and our business and operating results would be materially and adversely affected.

WE DEPEND ON A RELATIVELY SMALL NUMBER OF CUSTOMERS FOR A MAJORITY OF OUR REVENUES. We rely on a limited number of customers in our business. We expect to continue to depend upon a relatively small number of customers for a majority of the revenues in our business. For the year ended December 31, 2003, no one customer accounted for more than 10% of our revenues. Amounts due from a one customer represented approximately 11% of the accounts receivable balance as of December 31, 2003.

21

We generally do not enter into long-term supply commitments with our customers. Instead, we bid on a project basis. Significant reductions in sales to any of our largest customers would have a material adverse effect on our business. In addition, we generate significant accounts receivable and inventory balances in connection with providing products to our customers. A customer's inability to pay for our products could have a material adverse effect on our results of operations.

OUR FUTURE SUCCESS DEPENDS ON OUR ABILITY TO KEEP PACE WITH TECHNOLOGICAL CHANGES AND INTRODUCE NEW PRODUCTS IN A TIMELY MANNER. The rate of technological change currently affecting the smart card market is particularly rapid compared to other industries. Our ability to anticipate these trends and adapt to new technologies is critical to our success. Because new product development commitments must be made well in advance of actual sales, new product decisions must anticipate future demand as well as the speed and direction of technological change. Our ability to remain competitive will depend upon our ability to develop in a timely and cost effective manner new and enhanced products at competitive prices. New product introductions or enhancements by our competitors could cause a decline in sales or loss of market acceptance of our existing products and lower profit margins.

Our success in developing, introducing and selling new and enhanced products depends upon a variety of factors, including:

Edgar Filing: PUBLICARD INC - Form 10-K

- o product selections;
- o timely and efficient completion of product design and development;
- o timely and efficient implementation of manufacturing processes;
- o effective sales, service and marketing;
- o price; and
- o product performance in the field.

Our ability to develop new products also depends upon the success of our research and development efforts. We may need to devote additional resources to our research and development efforts in the future. We cannot assure you that funds will be available for these expenditures or that these funds will lead to the development of viable products.

THE HIGHLY COMPETITIVE MARKETS IN WHICH WE OPERATE COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS AND OPERATING RESULTS. The markets in which we operate are intensely competitive and characterized by rapidly changing technology. We compete against numerous companies, many of which have greater resources than we do, and we believe that competition is likely to intensify.

We believe that the principal competitive factors affecting us are:

- o the extent to which products support industry standards and are capable of being operated or integrated with other products;
- o technical features and level of security;
- o strength of distribution channels;
- o price;
- o product reputation, reliability, quality, performance and customer support;
- o product features such as adaptability, functionality and ease of use; and
- o competitor reputation, positioning and resources.

We cannot assure you that competitive pressures will not have a material adverse effect on our business and operating results. Many of our current and potential competitors have longer operating histories and significantly greater financial, technical, sales, customer support, marketing and other resources, as well as greater name recognition and a larger installed base of their products and technologies than our company. Additionally, there can be no assurance that new competitors will not enter our markets. Increased competition would likely result in price reductions, reduced margins and loss of market share, any of which could have a material adverse effect on our business and operating results.

Our primary competition currently comes from companies offering closed environment solutions, including small value electronic cash systems and database management solutions, such as G2 Integrated Solutions (Girovend), MARS, Cunninghams, Uniware, Diebold and Schlumberger.

Many of our current and potential competitors have broader customer relationships that could be leveraged, including relationships with many of our customers. These companies also have more established customer support and professional services organizations than we do. In addition, a number of companies with significantly greater resources than we have could attempt to increase their presence by acquiring or forming strategic alliances with our competitors, resulting in increased competition.

OUR LONG PRODUCT SALES CYCLES SUBJECT US TO RISK. Our products fall into two categories; those that are standardized and ready to install and use and

Edgar Filing: PUBLICARD INC - Form 10-K

those that require significant development efforts to implement within the purchasers' own systems. Those products requiring significant development efforts tend to be newly developed technologies and software applications that can represent major investments for customers. We are subject to potential customers' internal review processes and systems requirements. The implementation of some of our products involves deliveries of small quantities for pilot programs and significant testing by the customers before firm orders are received, or lengthy beta testing of software solutions. For these more complex products, the sales process may take one year or longer, during which time we may expend significant financial, technical and management resources, without any certainty of a sale.

WE MAY BE LIMITED IN OUR USE OF OUR FEDERAL NET OPERATING LOSS CARRYFORWARDS. As of December 31, 2003, we had federal net operating loss carryforwards, subject to review by the Internal Revenue Service, totaling approximately \$66.8 million for federal income tax purposes. The federal net operating loss carryforwards begin to expire in 2005. We do not expect to earn any significant taxable income in the next several years, and may not do so until much later, if ever. A federal net operating loss can generally be carried back two, three or five years and then forward fifteen or twenty years (depending on the year in which the loss was incurred), and used to offset taxable income earned by a company (and thus reduce its income tax liability).

Section 382 of the Internal Revenue Code provides that when a company undergoes an "ownership change," that company's use of its net operating losses is limited in each subsequent year. An "ownership change" occurs when, as of any testing date, the sum of the increases in ownership of each shareholder that owns five percent or more of the value of a company's stock as compared to that shareholder's lowest percentage ownership during the preceding three-year period exceeds fifty percentage points. For purposes of this rule, certain shareholders who own less than five percent of a company's stock are aggregated and treated as a single five-percent shareholder. We may issue a substantial number of shares of our stock in connection with public and private offerings, acquisitions and other transactions in the future, although no assurance can be given that any such offering, acquisition or other transaction will be effected. In addition, the exercise of outstanding options to purchase shares of our common stock may require us to issue additional shares of our common stock. The issuance of a significant number of shares of stock could result in an "ownership change." If we were to experience such an "ownership change," we estimate that virtually all of our available federal net operating loss carryforwards would be effectively unavailable to reduce our taxable income.

The extent of the actual future use of our federal net operating loss carryforwards is subject to inherent uncertainty because it depends on the amount of otherwise taxable income we may earn. We cannot give any assurance that we will have sufficient taxable income in future years to use any of our federal net operating loss carryforwards before they would otherwise expire.

OUR PROPRIETARY TECHNOLOGY IS DIFFICULT TO PROTECT AND MAY INFRINGE ON THE INTELLECTUAL PROPERTY RIGHTS OF THIRD PARTIES. Our success depends significantly upon our proprietary technology. We rely on a combination of patent, copyright and trademark laws, trade secrets, confidentiality agreements and contractual provisions to protect our proprietary rights. We seek to protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. We cannot assure you that any of our applications will be approved, that any new patents will be issued, that we will develop proprietary products or technologies that are patentable, that any issued patent will provide us with any competitive advantages or will not be challenged by third parties. Furthermore, we cannot assure you that the patents of others will not have a material adverse effect on our business and operating results.

Edgar Filing: PUBLICARD INC - Form 10-K

If our technology or products is determined to infringe upon the rights of others, and we were unable to obtain licenses to use the technology, we could be required to cease using the technology and stop selling the products. We may not be able to obtain a license in a timely manner on acceptable terms or at all. Any of these events would have a material adverse effect on our financial condition and results of operations.

Patent disputes are common in technology related industries. We cannot assure you that we will have the financial resources to enforce or defend a patent infringement or proprietary rights action. As the number of products and competitors in the smart card market grows, the likelihood of infringement claims also increases. Any claim or litigation may be time consuming and costly, cause product shipment delays or require us to redesign our products or enter into royalty or licensing agreements. Any of these events would have a material adverse effect on our business and operating results. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to use our proprietary information and software. In addition, the laws of some foreign countries do not protect proprietary and intellectual property rights as effectively as do the laws of the United States. Our means of protecting our proprietary and intellectual property rights may not be adequate. There is a risk that our competitors will independently develop similar technology, duplicate our products or design around patents or other intellectual property rights.

23

We believe that establishing, maintaining and enhancing the Infineer brand name is essential to our business. We filed an application for a United States trademark registration and an application for service mark registration of our name and logo. We are aware of third parties that use marks or names that contain similar sounding words or variations of the "infi" prefix. In July 2002, we received a claim from a third party challenging the use of the Infineer name. We have reached an agreement in principle with this third party, subject to negotiation of definitive documentation, and believe this particular challenge should be resolved. As a result of this claim and other challenges which may occur in the future, we may incur significant expenses, pay substantial damages and be prevented from using the Infineer name. Use of a similar name by third parties may also cause confusion to our clients and confusion in the market, which could decrease the value of our brand and harm our reputation. We cannot assure you that our business would not be adversely affected if we are required to change our name or if confusion in the market did occur.

THE NATURE OF OUR PRODUCTS SUBJECTS US TO PRODUCT LIABILITY RISKS. Our customers may rely on certain of our current products and products in development to prevent unauthorized access to digital content for financial transactions, computer networks, and real property. A malfunction of or design defect in certain of our products could result in tort or warranty claims. Although we attempt to reduce the risk of exposure from such claims through warranty disclaimers and liability limitation clauses in our sales agreements and by maintaining product liability insurance, we cannot assure you that these measures will be effective in limiting our liability for any damages. Any liability for damages resulting from security breaches could be substantial and could have a material adverse effect on our business and operating results. In addition, a well-publicized actual or perceived security breach involving our conditional access or security products could adversely affect the market's perception of our products in general, regardless of whether any breach is attributable to our products. This could result in a decline in demand for our products, which could have a material adverse effect on our business and operating results.

Edgar Filing: PUBLICARD INC - Form 10-K

WE MAY HAVE DIFFICULTY RETAINING OR RECRUITING PROFESSIONALS FOR OUR BUSINESS. Our future success and performance is dependent on the continued services and performance of our senior management and other key personnel. If we fail to meet our operating and financial objectives this may make it more difficult to retain and reward our senior management and key personnel. The loss of the services of any of our executive officers or other key employees could materially adversely affect our business.

Our business requires experienced software and hardware engineers, and our success depends on identifying, hiring, training and retaining such experienced, knowledgeable professionals. If a significant number of our current employees or any of our senior technical personnel resign, or for other reasons are no longer employed by us, we may be unable to complete or retain existing projects or bid for new projects of similar scope and revenues. In addition, former employees may compete with us in the future.

Even if we retain our current employees, our management must continually recruit talented professionals in order for our business to grow. Furthermore, there is significant competition for employees with the skills required to perform the services we offer. We cannot assure you that we will be able to attract a sufficient number of qualified employees in the future to sustain and grow our business, or that we will be successful in motivating and retaining the employees we are able to attract. If we cannot attract, motivate and retain qualified professionals, our business, financial condition and results of operations will suffer.

OUR INTERNATIONAL OPERATIONS SUBJECT US TO RISK ASSOCIATED WITH OPERATING IN FOREIGN MARKETS, INCLUDING FLUCTUATIONS IN CURRENCY EXCHANGE RATES, WHICH COULD ADVERSELY AFFECT OUR OPERATIONS AND FINANCIAL CONDITION. Sales outside the U.S. represented approximately 82% of total sales for the year ended December 31, 2003. Because we derive a substantial portion of our business outside the United States, we are subject to certain risks associated with operating in foreign markets including the following:

- o tariffs and other trade barriers;
- o difficulties in staffing and managing foreign operations;
- o currency exchange risks;
- o export controls related to encryption technology;
- o unexpected changes in regulatory requirements;
- o changes in economic and political conditions;
- o potentially adverse tax consequences; and
- o burdens of complying with a variety of foreign laws.

24

Any of the foregoing could adversely impact the success of our operations. We cannot assure you that such factors will not have a material adverse effect on our future sales and, consequently, on our business, operating results and financial condition. In addition, fluctuations in exchange rates could have a material adverse effect on our business, operating results and financial condition. To date, we have not engaged in currency hedging.

CHANGES WE MAY NEED OR BE REQUIRED TO MAKE IN OUR INSURANCE COVERAGE MAY EXPOSE US TO INCREASED LIABILITIES AND MAY INTERFERE WITH OUR ABILITY TO RETAIN OR ATTRACT QUALIFIED OFFICERS AND DIRECTORS. We renew or replace various insurance policies on an annual basis, including those that cover directors and officers liability. Given the current climate of rapidly increasing insurance premiums and erosions of coverage, we may need or be required to reduce our coverage and increase our deductibles in order to afford the premiums. To the extent we reduce our coverage and increase our deductibles, our exposure and the

Edgar Filing: PUBLICARD INC - Form 10-K

exposure of our directors and officers for liabilities that either become excluded from coverage or underinsured will increase. As a result, we may lose or may experience difficulty in attracting qualified directors and officers.

WE ARE SUBJECT TO GOVERNMENT REGULATION. Federal, state and local regulations impose various environmental controls on the discharge of chemicals and gases, which have been used in our past assembly processes and may be used in future processes. Moreover, changes in such environmental rules and regulations may require us to invest in capital equipment and implement compliance programs in the future. Any failure by us to comply with environmental rules and regulations, including the discharge of hazardous substances, could subject us to liabilities and could materially adversely affect our operations.

OUR ARTICLES OF INCORPORATION AND BY-LAWS, CERTAIN CHANGE OF CONTROL AGREEMENTS, OUR RIGHTS PLAN AND PROVISIONS OF PENNSYLVANIA LAW COULD DETER TAKEOVER ATTEMPTS.

Blank check preferred stock. Our board of directors has the authority to issue preferred stock and to fix the rights, preferences, privileges and restrictions, including voting rights, of these shares without any further vote or action by the holders of our common stock. The rights of the holders of any preferred stock that may be issued in the future may adversely affect the rights of the holders of our common stock. The issuance of preferred stock could make it more difficult for a third party to acquire a majority of our outstanding voting stock, thereby delaying, deferring or preventing a change of control. Such preferred stock may have other rights, including economic rights, senior to our common stock, and as a result, the issuance of the preferred stock could limit the price that investors might be willing to pay in the future for shares of our common stock and could have a material adverse effect on the market value of our common stock.

Rights plan. Our rights plan entitles the registered holders of rights to purchase shares of our class A preferred stock upon the occurrence of certain events, and may have the effect of delaying, deferring or preventing a change of control.

Change of control agreements. We are a party to change of control agreements, which provide for payments to certain of our directors and executive officers under certain circumstances following a change of control. Since the change of control agreements require large cash payments to be made by any person effecting a change of control, these agreements may discourage takeover attempts.

The change of control agreements provide that, if the services of any person party to a change of control agreement are terminated within three years following a change of control, that individual will be entitled to receive, in a lump sum within 10 days of the termination date, a payment equal to 2.99 times that individual's average annual compensation for the shorter of the five years preceding the change of control and the period the individual received compensation from us for personal services. Assuming a change of control were to occur at the present time, payments would be made of approximately \$738,000 to each of Mr. Harry I. Freund and Mr. Jay S. Goldsmith. If any such payment, either alone or together with others made in connection with the individual's termination, is considered to be an excess parachute payment under the Internal Revenue Code, the individual will be entitled to receive an additional payment in an amount which, when added to the initial payment, would result in a net benefit to the individual, after giving effect to excise taxes imposed by Section 4999 of the Internal Revenue Code and income taxes on such additional payment, equal to the initial payment before such additional payment and we would not be able to deduct these initial or additional payments for income tax purposes.

Edgar Filing: PUBLICARD INC - Form 10-K

Pennsylvania law. We are a Pennsylvania corporation. Anti-takeover provisions of Pennsylvania law could make it difficult for a third party to acquire control of us, even if such change of control would be beneficial to our shareholders.

25

OUR STOCK PRICE IS EXTREMELY VOLATILE. The stock market has recently experienced significant price and volume fluctuations unrelated to the operating performance of particular companies. The market price of our common stock has been highly volatile and is likely to continue to be volatile. The future trading price for our common stock will depend on a number of factors, including:

- o delisting of our common stock from the Nasdaq SmallCap Market effective March 28, 2003 (see "Our stock has been delisted from the Nasdaq System" above);
- o the volume of activity for our common stock is minimal and therefore a large number of shares placed for sale or purchase could increase its volatility;
- o our ability to effectively manage our business, including our ability to raise capital;
- o variations in our annual or quarterly financial results or those of our competitors;
- o general economic conditions, in particular, the technology service sector;
- o expected or announced relationships with other companies;
- o announcements of technological advances innovations or new products by us or our competitors;
- o patents or other proprietary rights or patent litigation; and
- o product liability or warranty litigation.

We cannot be certain that the market price of our common stock will not experience significant fluctuations in the future, including fluctuations that are adverse and unrelated to our performance.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign currency exchange rate risk

We conduct operations in the United Kingdom and sell products in several different countries. Therefore, our operating results may be impacted by the fluctuating exchange rates of foreign currencies, especially the British pound, in relation to the U.S. dollar. We do not currently engage in hedging activities with respect to our foreign currency exposure. We continually monitor our exposure to currency fluctuations and may use financial hedging techniques when appropriate to minimize the effect of these fluctuations. Even so, exchange rate fluctuations may still have a material adverse effect on our business and operating results.

Market Risk

We are exposed to market risk primarily through short-term investments and an overdraft facility. Our investment policy calls for investment in short-term, low risk instruments. As of December 31, 2003, short-term investments (principally U.S. Treasury bills) were \$3.5 million and borrowing under the overdraft facility amounted to \$271,000. Due to the nature of these investments and the amount of the overdraft facility, any change in rates would not have a material impact on our financial condition or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Edgar Filing: PUBLICARD INC - Form 10-K

The Company's consolidated financial statements, the report of independent public accountants thereon and related schedules appear beginning on page F-2. See Index to Consolidated Financial Statements on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

With the participation of management, the Company's chief executive officer and chief financial officer has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the chief executive officer and chief financial officer has concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

There has not been any change in the Company's internal controls over financial reporting during the fiscal year to which this report relates that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

26

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Company currently has six directors, all of whom were elected at the Annual Meeting of Shareholders held on December 8, 2003. All directors serve until the next election of directors or until their successors have been elected and have qualified. There is no family relationship between any of the directors and executive officers of the Company.

Set forth below as to each director of the Company is information regarding age (as of March 24, 2004), position with the Company, principal occupation, business experience, period of service as a director of the Company and directorships currently held.

HARRY I. FREUND: Age 64; Director of PubliCARD since April 12, 1985, Chairman of the Board of Directors since December 1985 and Chairman of PubliCARD since October 1998. Mr. Freund has been Chairman of Balfour Investors Inc., a merchant-banking firm that had previously been engaged in a general brokerage business ("Balfour"), since 1975. Mr. Freund is also Vice Chairman of Glasstech, Inc.

JAY S. GOLDSMITH: Age 60; Director of PubliCARD since April 12, 1985, Vice Chairman of the Board of Directors since December 1985 and Vice Chairman of PubliCARD since October 1998. Mr. Goldsmith has been President of Balfour since 1975. Mr. Goldsmith is also Chairman of Glasstech, Inc.

ANTONIO L. DELISE: Age 42; Director of PubliCARD since July 9, 2001. Mr. DeLise joined the Company in April 1995 as Vice President, Chief Financial Officer and Secretary. He was appointed to the Board of Directors in July 2001 and was elected to the additional posts of President in February 2002 and Chief Executive Officer in August 2002. Prior to joining the Company, Mr. DeLise was employed as a senior manager with the firm of Arthur Andersen LLP from July 1983 through March 1995.

Edgar Filing: PUBLICARD INC - Form 10-K

CLIFFORD B. COHN: Age 52; Director of PublicARD since July 31, 1980, and was Vice President of Government Affairs of PublicARD from April 1, 1982 to November 20, 1984. Mr. Cohn is the principal of Cohn & Associates, a law firm in Philadelphia, Pennsylvania. Mr. Cohn was an attorney for Grayson & Goldin P.C., a law firm in Philadelphia, Pennsylvania, during 2002.

L. G. SCHAFRAN: Age 65; Director of PublicARD since December 3, 1986. Mr. Schafran is the Managing General Partner of L.G. Schafran & Associates, an investment and development firm established in 1984. Mr. Schafran is a Director of Tarragon Realty Investors, Inc., Chairman of the Board and Co-Chief Executive Officer of Delta-Omega Technologies, Inc., Co-Liquidating Trustee of the Banyan Strategic Realty Trust and Director of Worldspace, Inc.

EMIL VOGEL: Age 60; Director of PublicARD since October 5, 2001. Mr. Vogel has been the Senior Partner and founder of Tarnow Associates ("Tarnow") since 1982. Prior to founding Tarnow, Mr. Vogel spent nine years with an executive search firm in the New York City metropolitan area conducting senior level search assignments. Mr. Vogel is also a director of Q.E.P. Co., Inc.

The information with respect to the executive officers of the Company required by this item is set forth in Item 1A of this Form 10-K.

AUDIT COMMITTEE

The present members of the Audit Committee are Mr. Schafran (Chairman), Mr. Cohn and Mr. Vogel. The Company's Board of Directors has adopted a written charter for the Audit Committee, which can be found on the Corporate Governance section of the Company's website at www.publicard.com. The Board of Directors of the Company has determined that Mr. Schafran qualifies as an "audit committee expert" as defined by the Securities and Exchange Commission.

CODE OF ETHICS

The Company has adopted a Code of Ethics that applies to the chief executive officer and senior financial officers. The Code of Ethics can be found on the Corporate Governance section of the Company's website at www.publicard.com. Changes to and waivers granted with respect to the Code of Ethics that are required to be disclosed pursuant to the applicable rules and regulations of the Securities and Exchange Commission will be posted to the Company's website.

27

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's directors and officers and persons who own more than 10 percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely upon the Company's review of the copies of such forms received by it during the fiscal year ended December 31, 2003 and representations that no other reports were required, the Company believes that each person who, at any time during such fiscal year, was a director, officer or, to the Company's knowledge, beneficial owner of more than 10% of the Company's common stock complied with all Section 16(a) filing requirements during such fiscal year.

Edgar Filing: PUBLICARD INC - Form 10-K

ITEM 11. EXECUTIVE COMPENSATION

The following tables set forth information concerning the cash compensation, stock options and retirement benefits provided to the Company's executive officers. The notes to these tables provide more specific information concerning compensation.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION -----	YEAR ----	ANNUAL COMPENSATION -----		LONG-TERM COMPENSATION
		SALARY (\$) -----	BONUS (\$) (1) -----	SECURITIES UNDERLYING OPTIONS/ SARS (#) (2) -----
Antonio L. DeLise (3)..... President, Chief Executive Officer, Chief Financial Officer and Secretary	2003	275,000	84,832	-
	2002	262,500	40,000	-
	2001	250,000	50,750	270,000 (6)
Harry I. Freund..... Chairman of the Board of Directors and Chairman	2003	150,000	-	-
	2002	170,833	-	-
	2001	275,000	-	800,000 (6)
Jay S. Goldsmith..... Vice Chairman of the Board of Directors and Vice Chairman	2003	150,000	-	-
	2002	170,833	-	-
	2001	275,000	-	800,000 (6)

- (1) Reflects bonus earned during the fiscal year. In some instances, all or a portion of the bonus was paid during the following fiscal year.
- (2) Options to acquire shares of Common Stock.
- (3) Mr. DeLise has served as Chief Financial Officer since April 1995 and was appointed to the additional posts of President in February 2002 and Chief Executive Officer in August 2002.
- (4) Represents life insurance premiums paid on behalf of Mr. Freund and Mr. Goldsmith.
- (5) Consists of \$5,250, \$5,500 and \$6,000 in contributions to PublicARD's 401(k) plan for 2001, 2002 and 2003, respectively, and \$1,909, \$2,880 and \$2,706 for term life and disability insurance payments paid on behalf of Mr. DeLise for 2001, 2002 and 2003, respectively.
- (6) Includes stock options granted pursuant to a 2001 stock option cancellation and re-pricing program (See "Stock Option Agreements") in the amount of 500,000 to Mr. Freund, 500,000 to Mr. Goldsmith, and 95,000 to Mr. DeLise.

OPTION GRANTS IN LAST FISCAL YEAR

During the fiscal year ended December 31, 2003, there were no options granted to the named executive officers.

Edgar Filing: PUBLICARD INC - Form 10-K

AGGREGATE STOCK OPTION EXERCISES IN FISCAL YEAR 2003 AND FISCAL YEAR-END OPTION VALUES

The following table sets forth certain information as of December 31, 2003 concerning exercisable and unexercisable stock options held by the following persons:

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END	
			EXERCISABLE	UNEXERCISABLE
Antonio L. DeLise	-	-	239,167	43,333
Harry I. Freund	-	-	416,667	83,333
Jay S. Goldsmith	-	-	416,667	83,333

(1) These values are based on the December 31, 2003 closing price for PublicARD's common stock on the Over-the-counter Bulletin Board of \$.055 per share.

STOCK OPTION PLANS

Under the 1993 Long-Term Incentive Plan and the 1993 Non-employee Director Stock Option Plan adopted by shareholders of the Company in 1994 and the 1999 Long-Term Incentive Plan and 1999 Stock Option Plan for Non-employee Directors adopted by shareholders of the Company in 1999, the Company may grant stock options, restricted stock options, stock appreciation rights, performance awards and other stock-based awards equivalent to up to 7,300,000 shares of common stock. As of December 31, 2003, a total of 2,018,025 shares of Common Stock in the aggregate were available for grant under the stock option plans.

The plans are administered by the Board of Directors and/or the Compensation Committee of the Board of Directors of the Company. Subject to the express provisions of the plans, the Compensation Committee or the Board of Directors, as applicable, has full and final authority to determine the terms of all awards granted under the plans including (a) the purchase price of the shares covered by each award, (b) whether any payment will be required upon grant of the award, (c) the individuals to whom, and the time at which, awards shall be granted, (d) the number of shares to be subject to each award, (e) when an award can be exercised and whether in whole or in installments, (f) whether the exercisability of the awards is subject to risk of forfeiture or other condition and (g) whether the stock issued upon exercise of an award is subject to repurchase by the Company, and the terms of such repurchase.

Edgar Filing: PUBLICARD INC - Form 10-K

STOCK OPTION AGREEMENTS

In February 2001, the Company concluded a stock option re-pricing program whereby a total of approximately 3.3 million stock options were cancelled. Pursuant to the program, employees and directors voluntarily elected to cancel stock options held with an exercise price that exceeded \$4.81 per share. In return, the Company granted a total of approximately 3.1 million replacement stock options on August 20, 2001. The replacement stock options, which were granted under the Company's stock option plans, generally contain the same terms and conditions of the cancelled stock options and have an exercise price of \$.39 per share, the closing price of the Company's Common Stock on August 20, 2001.

In January 1996, PubliCARD issued options to Messrs. Cohn and Schafran to buy a total of 200,000 shares of PubliCARD's Common Stock at an exercise price of \$2.50 per share for five years. In 2000, a total of 40,000 of such options were exercised. The expiration date on the remaining options was subsequently extended by five years to January 2006.

EMPLOYMENT AND CHANGE IN CONTROL AGREEMENTS

In August 1987, the Company entered into change of control agreements with each of Messrs. Freund and Goldsmith, which provide for payments to them under certain circumstances following a change of control of the Company. These agreements were not adopted in response to any specific acquisition of shares of PubliCARD or any other event threatening to bring about a change of control of the Company. For purposes of the agreements, a change of control is defined as any of the following: (a) the Company ceasing to be a publicly owned corporation having at least 2,000 shareholders, (b) any person or group acquiring in excess of 30% of the voting power of the Company's securities, (c) Messrs. Freund, Goldsmith, Cohn, DeLise, Schafran and Vogel and any other director designated as a "Continuing Director" prior to his election as a director by a majority of the foregoing persons (the "Continuing Directors") ceasing for any reason to constitute at least a majority of the board of directors, (d) the Company merging or consolidating with any entity, unless approved by a majority of the Continuing Directors or (e) the sale or transfer of a substantial portion of PubliCARD's assets to another entity, unless approved by a majority of the Continuing Directors.

29

In the event one of the above-named individuals (a) is terminated as an employee of the Company for any reason other than conviction of a felony or any act of fraud or embezzlement, (b) is disabled for six consecutive months or dies, (c) is not elected and maintained in the office which he now occupies, (d) is not included by the board of directors in the slate of directors recommended to shareholders, (e) receives a reduction in his salary or fringe benefits, (f) experiences a change in his place of employment or is required to travel excessively or (g) experiences other substantial, material and adverse changes in conditions under which the individual's services are to be rendered, within three years following a change of control, the individual will be entitled to receive in a lump sum within 10 days of the date of discontinuance, a payment equal to 2.99 times the individual's average annual compensation for the shorter of (a) the five years preceding the change of control, or (b) the period the individual received compensation from PubliCARD for personal services. Assuming a change of control of the Company and the discontinuance of an individual's services were to occur at the present time, payments in the amounts, assuming there are no "excess parachute payments" as defined in the Internal Revenue Code of 1986 (the "Code"), would be made pursuant to the change of control agreements of approximately \$738,000 to each of Mr. Freund and Mr. Goldsmith. In the event any such payment, either alone or together with others made in connection with the individual's discontinuance, is considered to be an excess parachute

Edgar Filing: PUBLICARD INC - Form 10-K

payment, the individual is entitled to receive an additional payment in an amount which, when added to the initial payment, results in a net benefit to the individual, after giving effect to excise taxes imposed by Section 4999 of the Code and income taxes on such additional payment, equal to the initial payment before such additional payment. Since the change of control agreements would require large cash payments to be made by any person or group effecting a change of control of PublicARD, absent the assent of a majority of the Continuing Directors, these agreements may discourage hostile takeover attempts of PublicARD.

The change of control agreements would have expired on December 1, 2003 but have been and will continue to be automatically extended for a period of one year on each December 1, unless terminated by either party prior to any December 1. In the event a change of control occurs while the change of control agreements are in effect, the term of such agreements will automatically be extended to three years from the date of the change of control and the foregoing renewal option will become inapplicable.

INFORMATION CONCERNING THE BOARD OF DIRECTORS

Through September 30, 2000, directors who were not officers of the Company were paid \$2,500 per month for services as directors and, in addition, \$750 per day for each meeting of the board or of shareholders that they attend without regard to the number of meetings attended each day. Effective October 1, 2000, the monthly retainer and per diem fees were suspended. Pursuant to the 1999 Stock Option Plan for Non-employee Directors adopted by shareholders of the Company in 1999, non-employee directors receive 30,000 options to purchase common stock of the Company in August of each year.

Messrs. Freund and Goldsmith are each party to an agreement with the Company providing for payments to them under certain circumstances following a change in control of the Company. See "Employment and Change in Control Agreements."

Balfour occupies a portion of the office space leased by the Company in New York City. The Chairman and Vice Chairman of the Company's Board of Directors are the only shareholders of Balfour. Balfour pays to the Company 50% of the rent and occupancy costs paid by the Company under its lease, including base rent, electricity, water, real estate tax escalations and operation and maintenance escalations. The base rent payable by Balfour is approximately \$11,000 per month.

Directors of the Company are elected at each annual meeting of shareholders to hold office until the next annual meeting of shareholders and until their respective successors are duly elected and qualified. Executive officers are elected to hold office until the first meeting of directors following the next annual meeting of shareholders or until their successors are sooner elected by the Board and qualified.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee of the Board of Directors, which consists entirely of outside directors, reviews the compensation of key employees of the Company. The present members of the Compensation Committee are Clifford B. Cohn (Chairman) and L.G. Schafran. See Item 13-"Certain Relationships and Related Transactions".

Edgar Filing: PUBLICARD INC - Form 10-K

The following information is furnished as of March 24, 2004 with respect to each class of equity securities of the Company beneficially owned by each person who owns of record or is known by the Company to own beneficially more than 5% of the common stock of the Company and by all directors, nominees and officers and by all directors, nominees and officers as a group. All information with respect to beneficial ownership has been furnished to the Company by the respective shareholders of the Company and the directors, nominees and officers.

NAME -----	POSITION -----	BENEFICIAL OWNERSHIP OF SHARES OF COMMON STOCK AS OF MARCH 24, 2004 (1) -----
Taube Hodson Stonex Partners Limited 27 St. James Place London SW1A 1NR United Kingdom	N/A	2,735,500 (2)
Harry I. Freund	Director, Chairman of the Board and Chairman	969,401 (3)
Jay S. Goldsmith	Director, Vice Chairman of the Board and Vice Chairman	1,180,997 (4)
Antonio L. DeLise	Director, President, Chief Executive Officer, Chief Financial Officer and Secretary	280,611 (5)
Clifford B. Cohn	Director	210,314 (6)
L.G. Schafran	Director	364,050 (7)
Emil Vogel	Director	138,800 (8)
All directors, nominees and officers as a group (6 persons)		3,131,173 (9)

- (1) Calculated in accordance with Rule 13d-3 adopted by the SEC under the Exchange Act.
- (2) Based on statements on Schedule 13G filed with the SEC on October 11, 1999 and on Form 4 Amendment No. 2 filed with the SEC on January 15, 2004. Taube Hodson Stonex Partners Limited is a discretionary investment advisor to J. Rothschild Assurance Life Fund, St. James Place International Unit Trust, J. Rothschild Assurance Pension Fund, J. Rothschild International Assurance Managed Fund, J. Rothschild International Assurance US\$ Managed Fund, TDG Funds Limited, GAM Worldwide Fund and The Partners Fund. Taube Hodson Stonex Partners Limited has power to vote and direct the vote and power to dispose and direct the disposition of shares held by such funds.
- (3) Includes 444,444 shares of Common Stock which may be acquired by Mr. Freund within 60 days. Also includes 5,454 shares of Common Stock held by Mr. Freund's spouse over which Mr. Freund has shared voting and investment power but as to which he disclaims any beneficial interest. Also includes 13,000 shares that may be deemed to be owned beneficially by Mr. Freund

Edgar Filing: PUBLICARD INC - Form 10-K

which are held by the Balfour Defined Benefit Pension Plan (the "Plan"), for which Mr. Freund is a Trustee and Plan Administrator and in which he participates. Mr. Freund disclaims ownership of 5,850 shares of such 13,000 shares.

31

- (4) Includes 444,444 shares of Common Stock which may be acquired by Mr. Goldsmith within 60 days. Also includes 13,000 shares that may be deemed to be owned beneficially by Mr. Goldsmith which are held by the Plan, of which Mr. Goldsmith is a Trustee and Plan Administrator and in which he participates. Mr. Goldsmith disclaims ownership of 7,280 shares of Common Stock held by the Plan.
- (5) Includes 253,611 shares which may be acquired by Mr. DeLise within 60 days through the exercise of stock options.
- (6) Includes 210,000 shares which may be acquired by Mr. Cohn within 60 days through the exercise of stock options.
- (7) Includes 250,000 shares which may be acquired by Mr. Schafran within 60 days through the exercise of stock options. Also includes 114,050 shares of Common Stock held by Mr. Schafran's spouse as to which Mr. Schafran disclaims any beneficial interest.
- (8) Includes 80,000 shares which may be acquired by Mr. Vogel within 60 days through the exercise of stock options.
- (9) Includes 1,682,499 shares of Common Stock which may be acquired by such persons within 60 days.

The following table sets forth certain equity compensation plan information for the Company as of December 31, 2003.

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (A)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (B)	NUMBER OF SE AVAILABLE F UNDER EQUITY (EXCLUDING SEC CO
-----	-----	-----	-----
Equity compensation plans approved by security holders	2,292,975	\$.79	2,01
Equity compensation plans not approved by security holders	352,000 -----	\$6.45	-----
Total	2,644,975 =====	\$1.54	2,01 =====

See Item 11-"Executive Compensation" for a description of the Company's equity compensation plans.

Edgar Filing: PUBLICARD INC - Form 10-K

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See "Employment and Change in Control Agreements" and "Information Concerning the Board of Directors" in Item 11 and the notes to the table under Security Ownership of Certain Beneficial Owners in Item 12 for information with respect to information required by this Item.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes the aggregate fees billed to the Company by Deloitte & Touche LLP, the Company's independent auditor:

	2003	2002
	-----	-----
Audit fees	\$179,758	\$164,761
Audit-related fees	11,038	16,480
Tax fees	-	-
All other fees	-	-

Audit-related fees consist of retirement plan audit fees. The Audit Committee requires that all services performed by Deloitte & Touche LLP are pre-approved prior to the services being performed. All services were pre-approved by the Audit Committee in 2003 and 2002. The Audit Committee has considered whether the provision of non-audit services by the Company's principal auditor are compatible with maintaining auditor independence. Deloitte & Touche LLP did not perform any non-audit services for the Company during 2003 and 2002.

32

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements, Financial Statement Schedules and Exhibits.

- 1) Financial Statements - See accompanying Index to Consolidated Financial Statements, Page F-1.
- 2) Financial Statement Schedules - See accompanying Index to Consolidated Financial Statements, Page F-1.
- 3) Exhibits:
 - 3.1 Amended and Restated Articles of Incorporation, amended and restated through November 2, 1998, of PublicARD. Incorporated by reference to PublicARD's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998, dated November 9, 1998.
 - 3.2 By-laws of PublicARD. Incorporated by reference to PublicARD's Annual Report on Form 10-K for the fiscal year ended December 31, 1990, dated March 28, 1991.
 - 4.1 Certificate of Designation, Preferences and Rights of Class A Preferred Stock, First Series. Incorporated by reference from PublicARD's Registration Statement on Form 8-A, dated September 26, 1988.

Edgar Filing: PUBLICARD INC - Form 10-K

- 4.2 Amended and Restated Rights Agreement, dated as of August 7, 1998, between PubliCARD and Continental Stock Transfer & Trust Company, as Rights Agent. Incorporated by reference from PubliCARD's Current Report on Form 8-K, filed on September 17, 1998.
- 4.3 Certificate of Designation, Preferences and Rights of Class A Preferred Stock, Second Series as filed with the Department of State of the Commonwealth of Pennsylvania on November 29, 2000. Incorporated by reference from PubliCARD's Current Report on Form 8-K filed on December 18, 2000.
- 4.4 Rights Plan, adopted November 1, 2000. Incorporated by reference from PubliCARD's Current Report on Form 8-K filed on December 18, 2000.
- 10.1 Agreements, dated as of August 1987, between PubliCARD and each of Harry I. Freund and Jay S. Goldsmith concerning a change of control of PubliCARD. Incorporated by reference from PubliCARD's Form 8 Amendment to PubliCARD's Quarterly Report on Form 10-Q for the quarter ended September 30, 1987, filed on December 18, 1987.
- 10.2 PubliCARD's 1993 Long Term Incentive Plan. Incorporated by reference from PubliCARD's Annual Report on Form 10-K for the year ended December 31, 1993, dated March 29, 1994.
- 10.3 PubliCARD's Non-employee Director Stock Option Plan. Incorporated by reference from PubliCARD's Annual Report on Form 10-K for the year ended December 31, 1993, dated March 29, 1994.
- 10.4 PubliCARD's 1999 Stock Option Plan for Non-Employee Directors. Incorporated by reference from PubliCARD's Annual Report on Form 10-K for the year ended December 31, 1999, dated March 30, 2000.
- 10.5 PubliCARD's 1999 Long-Term Incentive Plan. Incorporated by reference from PubliCARD's Annual Report on Form 10-K for the year ended December 31, 1999, dated March 30, 2000.
- 21.1 Subsidiaries of PubliCARD. Filed herewith.
- 23.1 Consent letter from Independent Auditors. Filed herewith.
- 31.1 Rule 13a-14(a)/15d-14(a) certification. Filed herewith.
- 32.1 Section 1350 certification. Filed herewith.

33

(b) Reports on Form 8-K

Form 8-K dated November 10, 2003, reporting the Registrant's results of operations for the third quarter of 2003.

34

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities

Edgar Filing: PUBLICARD INC - Form 10-K

Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PUBLICARD, INC.

(Registrant)

Date March 29, 2004

By: /s/ ANTONIO L. DELISE

Antonio L. DeLise, President,
Chief Executive Officer, Chief
Financial Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date March 29, 2004

By: /s/ ANTONIO L. DELISE

Antonio L. DeLise, President,
Chief Executive Officer, Chief
Financial Officer and Director

Date March 29, 2004

By: /s/ CLIFFORD B. COHN

Clifford B. Cohn, Director

Date March 29, 2004

By: /s/ HARRY I. FREUND

Harry I. Freund, Chairman and
Director

Date March 29, 2004

By: /s/ JAY S. GOLDSMITH

Jay S. Goldsmith, Vice Chairman
and Director

Date March 29, 2004

By: /s/ L. G. SCHAFRAN

L. G. Schafran, Director

Date March 29, 2004

By: /s/ EMIL VOGEL

Emil Vogel, Director

35

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

Edgar Filing: PUBLICARD INC - Form 10-K

Financial Statements

Independent auditors' report--Deloitte & Touche LLP

Report of independent public accountants--Arthur Andersen LLP

Consolidated balance sheets as of December 31, 2003 and 2002

Consolidated statements of operations for the years ended December 31, 2003,
2002 and 2001

Consolidated statements of shareholders' equity (deficit) for the years ended
December 31, 2003, 2002 and 2001

Consolidated statements of cash flows for the years ended
December 31, 2003, 2002 and 2001

Notes to consolidated financial statements

Schedule

Independent auditors' report on schedule--Deloitte & Touche LLP

Report of independent public accountants on schedule--Arthur Andersen LLP

Schedule II - Valuation and qualifying accounts

All other schedules required by Regulation S-X have been omitted because they are not applicable or because the required information is included in the financial statements or notes thereto.

F-1

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
PublicARD, Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of PublicARD, Inc. and subsidiary companies (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Company as of December 31, 2001 and for the year then ended, before the inclusion of the transitional disclosures relating to Goodwill and Intangible Assets, as described in Note 1 of the notes to the consolidated financial statements, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those

Edgar Filing: PUBLICARD INC - Form 10-K

financial statements in their report dated March 20, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2003 and 2002 consolidated financial statements present fairly, in all material respects, the financial position of PublicARD, Inc. and subsidiary companies as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed above, the consolidated financial statements of PublicARD, Inc. and subsidiary companies as of December 31, 2001, and for the year then ended, were audited by other auditors who have ceased operations. As described in Note 1, these consolidated financial statements have been revised to include the transitional disclosures required by SFAS 142, which was adopted by the Company as of January 1, 2002. Our audit procedures with respect to the disclosures in Note 1 with respect to 2001 included (1) comparing the previously reported net loss to the previously issued financial statements and the adjustments to reported net loss representing amortization expense recognized in those periods related to goodwill, to the Company's underlying analysis obtained from management, and (2) testing the mathematical accuracy of the reconciliation of adjusted net loss to reported net loss and the related loss-per-share amounts. In our opinion, the disclosures for 2001 in Note 1 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has experienced recurring losses from operations, a substantial decline in working capital and negative cash flows from operations, and requires additional capital to meet its obligations, which raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ DELOITTE & TOUCHE LLP

New York, New York
March 22, 2004

F-2

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

PublicARD, Inc. dismissed Arthur Andersen LLP on June 5, 2002, and subsequently engaged Deloitte & Touche LLP as its independent auditors. The predecessor

Edgar Filing: PUBLICARD INC - Form 10-K

auditors' report appearing below is a copy of Arthur Andersen LLP's previously issued opinion dated March 20, 2002. Since PubliCARD, Inc. is unable to obtain a manually signed audit report, a copy of Arthur Andersen LLP's most recently signed and dated report has been included below to satisfy filing requirements, as permitted under Rule 2-02(e) of Regulation S-X.

To the Shareholders of PubliCARD, Inc.:

We have audited the accompanying consolidated balance sheets of PubliCARD, Inc. (a Pennsylvania corporation) and subsidiary companies as of December 31, 2001 and 2000, and the related consolidated statements of income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PubliCARD, Inc. and subsidiary companies as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred operating losses and requires additional capital to meet its obligations and accomplish the Company's business plan, which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Arthur Andersen LLP

Stamford, Connecticut
March 20, 2002

F-3

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

ASSETS

2003

Edgar Filing: PUBLICARD INC - Form 10-K

(in thousands, except

Current assets:

Cash, including short-term investments of \$3,501 and \$1,138 in 2003 and 2002, respectively	\$ 3,580	\$
Trade receivables, less allowance for doubtful accounts of \$115 and \$103 in 2003 and 2002, respectively	1,133	
Inventories	635	
Prepaid insurance and other	440	
	-----	----
Total current assets	5,788	
Equipment and leasehold improvements, net	191	
Goodwill and intangibles	822	
Other assets	598	
	-----	----
	\$ 7,399	\$
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Current liabilities:

Trade accounts payable and overdraft	\$ 1,569	\$
Accrued liabilities	5,206	
	-----	----
Total current liabilities	6,775	
Other non-current liabilities	3,552	
	-----	----
Total liabilities	10,327	
	-----	----

Commitments and contingencies (Note 7)

Shareholders' equity (deficit):

Class A Preferred Stock, Second Series, no par value: 1,000 shares authorized; 565 and 765 issued and outstanding as of December 31, 2003 and 2002, respectively	2,825	
Common shares, \$0.10 par value: 40,000,000 shares authorized; 24,690,902 and 24,190,902 shares issued and outstanding as of December 31, 2003 and 2002, respectively	2,469	
Additional paid-in capital	108,119	10
Accumulated deficit	(113,617)	(11
Other comprehensive loss	(2,724)	(
	-----	----
Total shareholders' equity (deficit)	(2,928)	(
	-----	----
	\$ 7,399	\$
	=====	=====

The accompanying notes to consolidated financial statements are an integral part of these statements.

Edgar Filing: PUBLICARD INC - Form 10-K

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	2002
	(in thousands, except per share amounts)	
Revenues	\$ 4,781	\$ 4,781
Cost of sales	2,316	2,316
Inventory adjustment	-	-
Gross margin	2,465	2,465
Operating expenses:		
General and administrative	2,708	2,708
Sales and marketing	1,844	1,844
Product development	584	584
Stock compensation expense	-	-
Amortization of goodwill and intangibles	40	40
Impairment of goodwill and intangibles	-	-
Repositioning charge	-	-
	5,176	5,176
Loss from operations	(2,711)	(2,711)
Other income (expenses):		
Interest income	15	15
Interest expense	(12)	(12)
Cost of retirement benefits - non-operating	(903)	(903)
Write-down of minority investment	(3,000)	(3,000)
Gain on insurance recoveries	4,590	4,590
Other income	428	428
	1,118	1,118
Loss from continuing operations	(1,593)	(1,593)
Income from discontinued operations	-	-
Net loss	\$ (1,593)	\$ (1,593)
Basic and diluted earnings (loss) per common share:		
Continuing operations	\$ (.07)	\$ (.07)
Discontinued operations	-	-
	\$ (.07)	\$ (.07)
Weighted average common shares outstanding	24,469,748	24,170,000

Edgar Filing: PUBLICARD INC - Form 10-K

The accompanying notes to consolidated financial statements are an integral part of these statements.

F-5

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT) FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	Class A Preferred Stock		Common Shares		Add Pa Ca
	Shares Issued	Amount	Shares Issued	Amount	
(in thousands, except share data)					
Balance - January 1, 2001	790	\$3,950	24,237,402	\$2,424	\$ 10
Conversion of preferred stock	(10)	(50)	25,000	2	
Private placement costs	-	-	-	-	
Repurchase of common shares	-	-	(109,000)	(11)	
Amortization of unearned compensation	-	-	-	-	
Comprehensive loss:					
Net loss	-	-	-	-	
Foreign currency translation adjustment	-	-	-	-	
Minimum pension liability	-	-	-	-	
Total comprehensive loss					
Balance - December 31, 2001	780	3,900	24,153,402	2,415	10
Conversion of preferred stock	(15)	(75)	37,500	4	
Comprehensive loss:					
Net loss	-	-	-	-	
Foreign currency translation adjustment	-	-	-	-	
Minimum pension liability	-	-	-	-	
Total comprehensive loss					
Balance - December 31, 2002	765	3,825	24,190,902	2,419	10
Conversion of preferred stock	(200)	(1,000)	500,000	50	
Comprehensive loss:					

Edgar Filing: PUBLICARD INC - Form 10-K

Net loss	-	-	-	-
Foreign currency translation adjustment	-	-	-	-
Minimum pension liability	-	-	-	-
	-----	-----	-----	-----
Total comprehensive loss				
Balance - December 31, 2003	565	\$2,825	24,690,902	\$ 2,469 \$ 10
	=====	=====	=====	=====
	Other	Unearned	Share-	
	Comprehensive	Compensa-	holders'	
	Loss	tion	Equity	
	----	----	(Deficit)	

Balance - January 1, 2001	\$ -	\$ (86)	\$ 23,578	
Conversion of preferred stock	-	-	-	
Private placement costs	-	-	(43)	
Repurchase of common shares	-	-	(218)	
Amortization of unearned compensation	-	86	86	
Comprehensive loss:				
Net loss	-	-	(14,821)	
Foreign currency translation adjustment	(197)	-	(197)	
Minimum pension liability	(901)	-	(901)	
	-----	-----	-----	
Total comprehensive loss			(15,919)	

Balance - December 31, 2001	(1,098)	-	7,484	
	-----	-----	-----	
Conversion of preferred stock	-	-	-	
Comprehensive loss:				
Net loss	-	-	(7,193)	
Foreign currency translation adjustment	112	-	112	
Minimum pension liability	(1,405)	-	(1,405)	
	-----	-----	-----	
Total comprehensive loss			(8,486)	

Balance - December 31, 2002	(2,391)	-	(1,002)	
	-----	-----	-----	
Conversion of preferred stock	-	-	-	
Comprehensive loss:				
Net loss	-	-	(1,593)	
Foreign currency translation adjustment	10	-	10	
Minimum pension liability	(343)	-	(343)	
	-----	-----	-----	

Edgar Filing: PUBLICARD INC - Form 10-K

Total comprehensive loss			(1,926)

Balance - December 31, 2003	\$ (2,724)	\$ -	\$ (2,928)
	=====	=====	=====

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

F-6

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	2002	
	----	----	
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (1,593)	\$ (7,193)	\$ (1,593)
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain from discontinued operations	-	(1,066)	(1,066)
Insurance recoveries	(4,590)	-	(4,590)
Write-down of minority investment	3,000	2,068	3,000
Amortization of goodwill and intangibles	40	576	40
Impairment of goodwill and intangibles	-	1,365	(1,365)
Stock compensation expense	-	-	-
Depreciation and amortization	153	205	153
Gain on disposal of property and fixed assets	(286)	-	(286)
Repositioning charge and inventory adjustment	-	-	-
Changes in assets and liabilities:			
Trade receivables	(239)	686	(239)
Inventories	281	(248)	281
Prepaid insurance and other current assets	37	404	37
Other assets	293	533	293
Trade accounts payable	258	(27)	258
Accrued liabilities	2,455	(135)	2,455
Other non-current liabilities	(1,999)	(2,253)	(1,999)
	-----	-----	-----
Net cash used in operating activities	(2,190)	(5,085)	(2,190)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(11)	(28)	(11)
Proceeds from insurance recoveries, net of funds held in escrow	4,118	-	4,118
Proceeds from discontinued operations and sale of property and fixed assets	371	1,865	371
Other	(3)	47	(3)
	-----	-----	-----
Net cash provided by investing activities	4,475	1,884	4,475
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			

Edgar Filing: PUBLICARD INC - Form 10-K

Private placement of Class A Preferred Stock expenses	-	-	
	-----	-----	-----
Net cash used in financing activities	-	-	
	-----	-----	-----
Effect of exchange rate changes on cash and cash equivalents	5	12	
	-----	-----	-----
Net increase (decrease) in cash	2,290	(3,189)	(1)
Cash - beginning of period	1,290	4,479	1
	-----	-----	-----
Cash - end of period	\$ 3,580	\$ 1,290	\$
	=====	=====	=====
Cash paid for interest	\$ 12	\$ 81	\$
	=====	=====	=====

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

F-7

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF THE BUSINESS

PublicARD, Inc. ("PublicARD" or the "Company") was incorporated in the Commonwealth of Pennsylvania in 1913. PublicARD entered the smart card industry in early 1998, and began to develop solutions for the conditional access, security, payment system and data storage needs of industries utilizing smart card technology. In 1998 and 1999, the Company made a series of acquisitions to enhance its position in the smart card industry. In March 2000, PublicARD's Board of Directors (the "Board"), together with its management team, determined to integrate its operations and focus on deploying smart card solutions, which facilitate secure access and transactions. To effect this new business strategy, in March 2000, the Board adopted a plan of disposition pursuant to which the Company divested its non-core operations. See Note 9 for a discussion on the disposition plan.

In July 2001, after evaluating the timing of potential future revenues, PublicARD's Board decided to shift the Company's strategic focus. While the Board remained confident in the long-term prospects of the smart card business, the timing of public sector and corporate initiatives in wide-scale, broadband environments utilizing the Company's smart card reader and chip products had become more uncertain. Given the lengthened time horizon, the Board did not believe it would be prudent to continue to invest the Company's current resources in the ongoing development and marketing of these technologies. Accordingly, the Board determined that shareholders' interests would be best served by pursuing strategic alliances with one or more companies that have the resources to capitalize more fully on the Company's smart card reader and chip-related technologies. In connection with this shift in the Company's strategic focus, workforce reductions and other measures were implemented to achieve cost savings. See Note 10 for a discussion on the repositioning charge associated with this action.

Edgar Filing: PUBLICARD INC - Form 10-K

At present, PubliCARD's sole operating activities are conducted through its Infineer Ltd. subsidiary ("Infineer"), which designs smart card solutions for educational and corporate sites. The Company's future plans revolve around a potential acquisition strategy that would focus on businesses in areas outside the high technology sector while continuing to support the expansion of the Infineer business. However, the Company will not be able to implement such plans unless it is successful in obtaining funding, as to which no assurance can be given.

LIQUIDITY AND GOING CONCERN CONSIDERATIONS

These consolidated financial statements contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred operating losses, a substantial decline in working capital and negative cash flow from operations for a number of years. The Company has also experienced a substantial reduction in its cash and short term investments, which declined from \$17.0 million at December 31, 2000 to \$3.6 million at December 31, 2003. The Company also had a working capital deficiency of \$1.0 million and an accumulated deficit of \$113.6 million at December 31, 2003.

If the distress termination of the Company's defined benefit pension plan for which the Company has applied is completed (see Note 5), the Company's 2003 and 2004 funding requirements to the plan could be eliminated, in which case management believes that existing cash and short term investments may be sufficient to meet the Company's operating and capital requirements at the currently anticipated levels through December 31, 2004. However, additional capital will be necessary in order to operate beyond December 2004 and to fund the current business plan and other obligations. While the Company is actively considering various funding alternatives, the Company has not secured or entered into any arrangements to obtain additional funds. There can be no assurance that the Company will eliminate the 2003 or 2004 funding requirements for the defined benefit pension plan or be able to obtain additional funding on acceptable terms or at all. If the Company cannot raise additional capital to continue its present level of operations it may not be able to meet its obligations, take advantage of future acquisition opportunities or further develop or enhance its product offering, any of which could have a material adverse effect on its business and results of operations and could lead the Company to seek bankruptcy protection. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

F-8

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of PubliCARD and its wholly-owned subsidiaries. All intercompany transactions are eliminated in consolidation.

SHORT-TERM INVESTMENTS

Short-term investments consist of certain liquid instruments with original maturities of three months or less including U.S. Treasury obligations and money market funds.

INVENTORIES

Inventories are stated at lower of cost (first-in, first-out method) or

Edgar Filing: PUBLICARD INC - Form 10-K

market. The Company periodically evaluates the need to record adjustments for impairment of inventory. Inventory in excess of the Company's estimated usage requirements is written down to its estimated net realizable value. Inherent in the estimates of net realizable value are management's estimates related to the Company's production schedules, customer demand, possible alternative uses and the ultimate realization of potentially excess inventory. Inventories at December 31, 2003 and 2002 consisted of the following (in thousands):

	2003	2002
	-----	-----
Raw materials and supplies	\$ 444	\$ 154
Work-in-process	42	21
Finished goods	149	710
	-----	-----
	\$ 635	\$ 885
	=====	=====

DEPRECIATION AND AMORTIZATION

Equipment and leasehold improvements are stated at cost. Improvements and replacements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Depreciation for equipment is computed using the straight-line method over estimated useful lives of three to five years. Amortization for leasehold improvements is computed using the lesser of the estimated useful life or the life of the lease. Equipment and leasehold improvements at December 31, 2003 and 2002 consisted of the following (in thousands):

	2003	2002
	----	----
Equipment, furniture and fixtures	\$ 1,093	\$ 899
Leasehold improvements	224	224
Accumulated depreciation and amortization	(1,126)	(744)
	-----	-----
	\$ 191	\$ 379
	=====	=====

Depreciation and amortization expense was \$153,000, \$205,000 and \$308,000 in 2003, 2002 and 2001, respectively.

GOODWILL AND INTANGIBLES

Goodwill is the excess of the purchase price and related costs over the value assigned to the net tangible and intangible assets relating to the November 1999 acquisition of Infineer. Through December 31, 2001, goodwill had been amortized over a five year life. Effective January 1, 2002, the Company adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). In accordance with the guidelines of this statement, goodwill and indefinite lived intangible assets are no longer amortized but will be assessed for impairment on at least an annual basis. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment. The historical results of periods prior to 2002 in the Company's Consolidated Statements of Operations do not reflect the effect of SFAS No. 142 and, accordingly, the 2001 results included goodwill amortization expense of \$1.1 million. Excluding goodwill amortization, the pro forma net loss for 2001 was \$13.7 million or \$.57 per share.

Edgar Filing: PUBLICARD INC - Form 10-K

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company performed an initial review for impairment of goodwill as of January 1, 2002 and determined that no impairment existed at that date. The Company determined the fair value of its sole reporting unit primarily using two approaches: a market approach technique and a discounted cash flow valuation technique. The market approach relied primarily on the implied fair value using a multiple of revenues for several entities with comparable operations and economic characteristics. Significant assumptions used in the discounted cash valuation included estimates of future cash flows, future short-term and long-term growth rates and estimated cost of capital for purposes of arriving at a discount factor.

In performing its annual goodwill impairment test at the end of the fourth quarter of 2002, the Company determined that goodwill had been impaired. Based on comparing the values derived from the two techniques described above to the carrying value of the reporting unit, the Company recorded a goodwill impairment loss of \$364,000 in the fourth quarter of 2002. The Company attributed the impairment loss to the value of a comparable entity that was sold in a transaction in late 2002, the significant 2002 operating loss for the reporting unit and lower forecasted revenue growth due to a continued overall decline in technology spending and a shortage of capital available to invest in the reporting unit. The Company performed its annual goodwill impairment test at the end of the fourth quarter of 2003 and determined that goodwill had not been impaired. On an ongoing basis, the Company expects to perform its annual impairment test at the end of the fourth quarter absent any interim impairment indicators.

The changes in the carrying value of goodwill for the year ended December 31, 2003 and 2002 was as follows (in thousands):

	2003 ----	2002 ----
Balance, beginning of year	\$ 782	\$1,146
Impairment loss	-	(364)
	-----	-----
Balance, end of year	\$ 782	\$ 782
	=====	=====

Amortization of goodwill for 2001 was \$1.1 million. In 2001, the Company wrote-off \$3.3 million of goodwill associated with the July 2001 repositioning action. See Note 10.

Intangible assets consist of completed technology identified as of the Infineer acquisition date and are amortized over a five year life. Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the net realizable of the asset. In the fourth quarter of 2002, the Company determined that its intangible assets had been impaired and recorded an impairment loss of \$1.0 million. The Company attributes the impairment loss to the significant 2002 operating loss for the reporting unit and lower forecasted revenue growth due to a continued overall decline in technology spending and a shortage of capital

Edgar Filing: PUBLICARD INC - Form 10-K

available to invest in the reporting unit. In 2001, the Company wrote-off \$822,000 of intangibles associated with the July 2001 repositioning action. See Note 10.

F-10

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The gross carrying amount and accumulated amortization of intangible assets at December 31, 2003 and 2002 consisted of the following (in thousands):

	2003	2002
	----	----
Gross carrying amount	\$ 1,881	\$ 1,881
Accumulated amortization	(1,841)	(1,801)
	-----	-----
	\$ 40	\$ 80
	=====	=====

Amortization of intangibles for 2003, 2002 and 2001 was \$40,000, \$576,000 and \$746,000 respectively. The estimated annual amortization expense for intangibles is \$40,000 for 2004.

VALUATION OF INVESTMENTS

The Company periodically assesses the carrying value of its minority-owned investments for impairment. This assessment is based upon a review of operations and indications of continued viability, such as subsequent rounds of financing.

REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE

Revenue from product sales and technology and software license fees is recorded upon shipment if a signed contract exists, the fee is fixed and determinable, the collection of the resulting receivable is probable and the Company has no obligation to install the product or solution. If the Company is responsible for installation, revenue from product sales and license fees is deferred and recognized upon client acceptance or "go live" date. Maintenance and support fees are deferred and recognized as revenue ratably over the contract period. Provisions are recorded for estimated warranty repairs and returns at the time the products are shipped. Should changes in conditions cause management to determine that revenue recognition criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's credit worthiness. The Company continually monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that it has identified. While such credit losses have historically been within management's expectations and the provisions established, there is no assurance that the Company will continue to experience the same credit loss rates as in the past.

STOCK-BASED COMPENSATION

SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), requires that an entity account for employee stock-based compensation under a fair value based method. However, SFAS No. 123 also allows an entity to continue to measure compensation cost using the intrinsic value method of accounting

Edgar Filing: PUBLICARD INC - Form 10-K

prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees ("APB No. 25"). The Company continues to account for employee stock-based compensation using the intrinsic value based method and is required to make pro forma disclosures of net income (loss) and related per share amounts as if the fair value based method of accounting under SFAS No. 123 had been applied. Restricted stock or stock awards are recorded as compensation expense over the vesting period, if any, based on the market value on the date of grant.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock based employee compensation and the effect of the method used on reported results. The provisions of SFAS No. 148 are effective for financial statements for fiscal years and interim periods ending after December 15, 2002.

F-11

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The disclosure provisions of SFAS No. 148 have been adopted by the Company (see below). SFAS No. 148 did not require the Company to change to the fair value based method of accounting for stock-based compensation.

At December 31, 2003, the Company had four fixed stock-based compensation plans, which are described more fully in Note 6. The exercise price of each option granted pursuant to these plans is equal to the market price of the Company's common stock on the date of grant. Accordingly, pursuant to APB Opinion No. 25, no compensation cost has been recognized for such grants. Had compensation cost been determined based on the fair value at the grant dates for such awards consistent with the method prescribed by SFAS No. 123, the Company's net loss and loss per share would have been as follows (in thousands, except per share data):

	2003 ----	2002 ----	2001 ----
Net loss, as reported	\$ (1,593)	\$ (7,193)	\$ (14,821)
Deduct stock-based compensation expense determined under fair value based method	(490)	(172)	(1,301)
	-----	-----	-----
Pro forma net loss	\$ (2,083)	\$ (7,365)	\$ (16,122)
	=====	=====	=====
 Basic and diluted loss per share:			
As reported	\$ (.07)	\$ (.30)	\$ (.61)
	=====	=====	=====
Pro forma	\$ (.09)	\$ (.30)	\$ (.67)
	=====	=====	=====

For purposes of the pro forma disclosure, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions used to estimate the value of the

Edgar Filing: PUBLICARD INC - Form 10-K

options included in the pro forma amounts and the weighted average estimated fair value of an option granted are as follows:

	2003	2002	2001
	----	----	----
Expected option term (years)	5.0	5.0	7.85
Expected volatility	93.0%	75.0%	85.0%
Risk-free interest rate	3.4%	3.5%	6.2%
Weighted average fair value per option	\$.05	\$.16	\$.31

USE OF ESTIMATES

The preparation of these financial statements required the use of certain estimates by management in determining the Company's assets, liabilities, revenues and expenses. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. The Company considers certain accounting policies related to revenue recognition, estimates of reserves for receivables and inventories, valuation of investments, goodwill and intangibles and pension accounting to be critical policies due to the estimation processes involved. While all available information has been considered, actual amounts could differ from those reported.

EARNINGS (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is based on net income divided by the weighted average number of common shares outstanding during each year. Diluted net income (loss) per common share assumes issuance of the net incremental shares from stock options, warrants and convertible preferred stock at the later of the beginning of the year or date of issuance. Diluted net income (loss) per share was the same as basic net income (loss) per share in 2003, 2002 and 2001 since the effect of stock options, warrants and convertible preferred stock were anti-dilutive.

F-12

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOREIGN CURRENCY TRANSLATION

The local currency of the Company's foreign (United Kingdom) subsidiary is its functional currency. Assets and liabilities of the Company's foreign subsidiary are translated into U.S. dollars at the current exchange rate. Statement of operations accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are a component of accumulated comprehensive loss included in stockholders' equity.

CONCENTRATION OF CREDIT RISK

The carrying amount of financial instruments including cash and short-term investments, accounts receivable and accounts payable approximated fair value as of December 31, 2003, because of the relatively short maturity of these instruments. The Company maintains all of its cash and short-term investments with high-credit quality financial institutions. For the year ended December 31, 2003, no one customer accounted for more than 10% of revenues. Amounts due from a second customer represented approximately 11% of the accounts receivable balance as of December 31, 2003.

Edgar Filing: PUBLICARD INC - Form 10-K

RESEARCH AND DEVELOPMENT AND SOFTWARE DEVELOPMENT COSTS

Research and development costs are expensed as incurred. In accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", the Company capitalizes eligible computer software costs upon achievement of technological feasibility subject to net realizable value considerations. Through December 31, 2003, such costs eligible for capitalization were insignificant. Accordingly, all such costs have been charged to product development expenses.

INCOME TAXES

The Company follows SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Since the Company has no recent history of profits, management cannot assess the likelihood that the future benefit of these losses will be recognized. Thus, a full valuation allowance has been recorded.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The interpretation addresses the disclosures to be made by a guarantor in its financial statements about its obligations under guarantee. In addition, it also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of a guarantee for the obligations the guarantor has undertaken in issuing that guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure provisions became effective December 15, 2002. The adoption of the recognition and measurement provisions did not have a material impact on the Company's Consolidated Financial Statements.

In January 2003, the FASB issued FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities". In December 2003, the FASB issued FIN No. 46 (Revised) ("FIN 46-R") to address certain FIN 46 implementation issues. This interpretation clarifies the application of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements" for companies that have interests in entities that are Variable Interest Entities (VIE) as defined under FIN 46. According to this interpretation, if a company has an interest in a VIE and is at risk for a majority of the VIE's expected losses or receives a majority of the VIE's expected gains it shall consolidate the VIE. FIN 46-R also requires additional disclosures by primary beneficiaries and other significant variable interest holders. For entities acquired or created before February 1, 2003, this interpretation is effective no later than the end of the first interim or reporting period ending after March 15, 2004, except for those VIE's that are considered to be special purpose entities, for which the effective date is no later than the end of the first interim or annual reporting period ending after December 15, 2003. For all entities that were acquired subsequent to January 31, 2003, this interpretation is effective as of the first interim or annual period ending after December 31, 2003. The adoption of the provisions of this interpretation did not have a material effect on the Company's Consolidated Financial Statements.

F-13

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

Edgar Filing: PUBLICARD INC - Form 10-K

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"). SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 amends certain other existing pronouncements. SFAS No. 149 is effective on a prospective basis for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of this statement did not have a material impact on the Company's Consolidated Financial Statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement will become effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this statement did not have a material impact on the Company's Consolidated Financial Statements.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS No. 132 revised") that improves financial statement disclosures for defined benefit plans. The change replaces existing SFAS No. 132 disclosure requirements for pensions and other postretirement benefits and revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement of recognition of those plans required by SFAS No. 87, "Employers' Accounting for Pensions" or SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." SFAS No. 132 revised retains the disclosure requirements contained in the original SFAS No. 132, but requires additional disclosures about the plan assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132 revised is effective for annual and interim periods with fiscal years ending after December 15, 2003. The Company adopted the revised disclosure provisions.

In December 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 104, Revenue Recognition, which supersedes SAB No. 101, Revenue Recognition in Financial Statements. SAB No. 104 rescinds accounting guidance in SAB No. 101 related to multiple-element arrangements as this guidance has been superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." The adoption of SAB No. 104 did not have a material impact on the Company's Consolidated Financial Statements.

NOTE 2 - INVESTMENTS

In December 2000, the Company acquired an ownership interest in TecSec, Incorporated, a Virginia corporation ("TecSec"), for \$5.1 million. TecSec develops and markets encryption products and solutions, which are designed to enable the next generation information security for the enterprise, multi-enterprise e-business and other markets. The TecSec investment, amounting to a 5% ownership interest on a fully diluted basis, has been accounted for at cost. The Company has certain anti-dilutive rights whereby its ownership

Edgar Filing: PUBLICARD INC - Form 10-K

interest may be increased following contributions of additional third-party capital. In the third quarter of 2002, the Company determined that the investment in TecSec had been impaired and recorded a charge of \$2.1 million. The Company attributed the impairment to a general decline in valuations of technology entities, the difficulties in raising capital and TecSec's recurring operating losses. In the fourth quarter of 2003, the Company determined that the investment had been further impaired and recorded a charge of \$3.0 million. The Company attributed this further impairment to the delay in anticipated government sector awards involving information security technology and TecSec's ongoing operating losses and liquidity issues. The impairment charges are included in "Other expense (income)". TecSec is currently evaluating alternative sources of financing to meet ongoing capital and operating needs including possible technology license and equity investment transactions, although there is no assurance that it will be able to obtain financing or continue in operations. Future recoveries, if any, from the Company's ownership interest in TecSec will be recorded as income upon receipt.

F-14

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In conjunction with the decision to exit the smart card reader and chip business, in September 2001, the Company formed a new minority-owned affiliate, Mako Technologies LLC ("Mako"), to market its smart card reader and chip technologies. The Company contributed certain inventories and equipment valued at \$238,000, in exchange for a 31% fully diluted ownership interest in Mako. The Company also granted a license of its reader and chip technology to Mako in exchange for royalties based on sales over the next two years. After reducing headcount and reassessing business potential, a decision was made in April 2002 to liquidate Mako and terminate the license agreement. Pending the final wind-down of this venture, the Company wrote-off the entire investment in Mako in 2002. During 2002, the Company also realized proceeds of \$224,000 from the sale of smart card reader and chip inventory, which had been previously written-off. The Mako write-off and inventory proceeds are reflected in "Other (expense) income".

NOTE 3 - SHAREHOLDERS' EQUITY

On December 6, 2000, the Company completed the private placement of 525,000 shares of common stock and 790 shares of Class A Preferred Stock, Second Series ("Class A Preferred Stock"), a newly designated series of convertible preferred stock, resulting in aggregate proceeds of \$5.0 million to PublicARD. The securities were sold to institutional investors and other accredited investors in the U.S. and Europe. Each share of Class A Preferred Stock is convertible into 2,500 shares of common stock. Therefore, the shares of common stock issued plus the shares of common stock issuable upon conversion of the Class A Preferred Stock aggregate 2.5 million common shares. The proceeds from the private placement were used to acquire the ownership interest in TecSec. In 2001, 2002 and 2003, 10 shares, 15 shares and 200 shares of Class A Preferred Stock were converted into 25,000 shares, 37,500 shares and 500,000 shares, respectively, of PublicARD's common stock.

In connection with the December 2000 private placement, the Company issued 100 rights equally to the participants in the private placement. These rights entitle the participating holders of common stock and Class A Preferred stock to receive an aggregate of ten percent of any increase in value of the TecSec investment realized by the Company. The Company performed an internal valuation

Edgar Filing: PUBLICARD INC - Form 10-K

of the participation rights and concluded their value on the issuance date to be de minimus.

In June 2001, the Company repurchased 109,000 shares of common stock pursuant to an incentive award agreement related to the disposition of certain assets.

On August 9, 1988, the Company declared a dividend of one right ("Right") for each outstanding share of its common stock. Each Right entitles the holder to purchase one one-hundredth of a share of a new series of Class A Preferred Stock, First Series, at an exercise price of \$7.50, subject to adjustment to prevent dilution. The Rights become exercisable 10 days after a person or group acquires 20% or more of the Company's common stock or announces a tender or exchange offer for 30% or more of the Company's common stock. If, after the Rights become exercisable, the Company is party to a merger or similar business combination transaction, each Right not held by a party to such transaction may be used to purchase common stock having a market value of two times the exercise price. The Rights, which have no voting power, may be redeemed by the Company at \$.01 per Right. In July 1998, the Company's Board of Directors approved the extension of the rights plan to August 8, 2008.

F-15

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - INCOME TAXES

The loss from continuing operations before income taxes consisted of the following (in thousands):

	2003	2002	2001
	----	----	----
United States	\$ (508)	\$ (4,686)	\$ (14,477)
Foreign	(1,085)	(3,573)	(2,694)
	-----	-----	-----
	\$ (1,593)	\$ (8,259)	\$ (17,171)
	=====	=====	=====

A reconciliation of taxes computed at the U.S. Federal statutory tax rate to income tax expense for continuing operations follows (in thousands):

	2003	2002	2001
	----	----	----
Federal taxes, at statutory rate	\$ (558)	\$ (2,890)	\$ (6,010)
Effect of domestic and foreign losses with no tax benefit	543	2,204	4,235
Amortization of goodwill and intangibles and other non-deductible expenses	15	686	1,775
	-----	-----	-----
Income tax expense	\$ -	\$ -	\$ -
	=====	=====	=====

The components of net deferred taxes are as follows (in thousands):

Edgar Filing: PUBLICARD INC - Form 10-K

	2003	2002
	----	----
Net operating loss carryforward	\$24,583	\$23,495
Pension expense	1,417	1,155
TecSec investment	-	724
Other, net	(26)	161
	-----	-----
	25,974	25,535
Less valuation allowance	(25,974)	(25,535)
	-----	-----
Net deferred taxes	\$ -	\$ -
	=====	=====

As of December 31, 2003, approximately \$66.8 million of U.S. tax loss carryforwards (subject to review by the Internal Revenue Service), expiring from 2005 through 2023, were available to offset future taxable income. The carryforwards expire as follows (in thousands):

YEAR ENDING DECEMBER 31,	AMOUNT
2005	\$ 6,700
2006	2,400
2007	4,300
2008	5,000
2009	2,300
2010 - 2023	46,100

	\$ 66,800
	=====

F-16

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Due to the "change of ownership" provisions of the Internal Revenue Code of 1986, the availability of net operating loss carryforwards to offset federal taxable income in future periods could be subject to an annual limitation if a change in ownership for income tax purposes occurs. If such change in ownership were to occur, management estimates that virtually all of the available net operating loss carryforwards would be unavailable to reduce its income tax liability. Furthermore, the extent of the actual future use of the net operating loss carryforwards is subject to inherent uncertainty, because it depends on the amount of otherwise taxable income the Company may earn. No assurance can be given that the Company will have sufficient taxable income in future years, if any, to use the net operating losses before they would otherwise expire.

At December 31, 2003, the Company's foreign subsidiary had a net operating loss carryforward for income tax purposes of approximately \$4.0 million. The operating loss carryforward has no expiration period. For financial reporting purposes, a valuation allowance of \$1.2 million has been recognized to offset the deferred tax asset relating to this carryforward.

NOTE 5 - EMPLOYEE BENEFITS

Edgar Filing: PUBLICARD INC - Form 10-K

The Company maintains a 401(k) plan for its U.S. employees. The assets of the Company's 401(k) plan are held by an outside fund manager and are invested in accordance with the instructions of the individual plan participants. The Company's matching contributions totaled \$9,000, \$14,000 and \$68,000 in 2003, 2002 and 2001, respectively.

The Company sponsors a defined benefit pension plan (the "Plan"). Participants ceased accruing benefits under the Plan effective December 31, 1993. Information regarding the Plan, measured as of December 31, 2003 and 2002, is as follows (in thousands):

	2003	2002
	----	----
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 9,354	\$ 9,063
Interest cost	531	611
Benefit payments	(916)	(953)
Actuarial (gain) or loss	778	633
	-----	-----
Benefit obligation at end of year	9,747	9,354
	-----	-----
Change in plan assets:		
Fair value of plan assets at beginning of year	3,210	3,601
Actual return on plan assets	542	(502)
Employer contributions	-	1,064
Benefit payments and plan expenses	(947)	(953)
	-----	-----
Fair value of plan assets at end of year	2,805	3,210
	-----	-----
Funded status	(6,942)	(6,144)
Unrecognized transition obligation	-	293
Unrecognized prior service cost	2	2
Unrecognized net loss	2,649	2,306
	-----	-----
	\$ (4,291)	\$ (3,543)
	=====	=====
Amounts recognized in statement of financial position consist of:		
Accrued benefit liability	\$ (6,942)	\$ (6,144)
Intangible asset	2	295
Accumulated comprehensive loss	2,649	2,306
	-----	-----
Net amount recognized	\$ (4,291)	\$ (3,543)
	=====	=====

F-17

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cost of retirement benefits - non-operating of \$903,000, \$795,000 and \$788,000 in 2003, 2002 and 2001, respectively, includes the net periodic pension cost and other Plan related expenses. The components of the net periodic pension cost were as follows (in thousands):

	2003	2002	2001
--	------	------	------

Edgar Filing: PUBLICARD INC - Form 10-K

Interest cost	\$ 531	\$ 611	\$ 648
Expected return on plan assets	(162)	(268)	(317)
Amortization of transition obligation	293	293	293
Amortization of net (gain) loss	86	-	-
Net periodic pension cost	\$ 748	\$ 636	\$ 624

The increase in the minimum liability included in other comprehensive income was as follows (in thousands):

	2003	2002	2001
Other comprehensive income	\$ 343	\$ 1,405	\$ 901

The assumptions used to determine the net periodic pension cost for the years ending December 31, 2003, 2002 and 2001 and the benefit obligation as of December 31, 2003 and 2002 were as follows:

	NET PERIODIC PENSION COST			BENEFIT OBLIGATION	
	2003	2002	2001	2003	2002
Discount rate	6.0%	7.25%	7.5%	5.0%	6.0%
Long-term rate of return	6.0%	8.0%	8.0%	N/A	N/A

As discussed below, Company filed a notice with the Pension Benefit Guaranty Corporation ("PBGC") seeking a "distress termination" of the Plan. The discount rate and long-term rate of return assumptions were decreased in 2003 to reflect the Plan's short time horizon due to the pending termination request.

The Plan's asset allocation at December 31, 2003 and 2002, by asset category was as follows:

	2003	2002
Equity securities	64%	60%
Government bonds	23%	23%
Corporate bonds	4%	7%
Money market and accrued income	9%	10%
	100%	100%

The investment objectives of the Plan is to diversify assets in order to reduce the risk of wide swings in market value from year-to-year, to provide asset growth at a rate in excess of the rate of inflation and to achieve a positive rate of return over the long term that significantly contributes to meeting the Plan's obligations. The target asset mix guidelines are as follows:

ASSET CLASS	MINIMUM	TARGET	MAXIMUM
Equity securities	40%	60%	80%

Edgar Filing: PUBLICARD INC - Form 10-K

Investment grade debt securities	30%	40%	50%
Cash and cash equivalents	0%	0%	10%

F-18

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Equity securities include PublicARD common stock in the amount of approximately \$9,000 and \$26,000 at December 31, 2003 and 2002, respectively (less than 1% of total plan assets).

Prior to 2003, the Company's funding policy had been to contribute amounts sufficient to meet the minimum funding requirements as set forth in employee benefit and tax laws. Contributions to the Plan were \$1.1 million in each year for 2002 and 2001.

In January 2003, the Company filed a notice with the PBGC seeking a "distress termination" of the Plan. If the PBGC determines that the Company meets one of the tests for such a termination, the Plan will terminate and the PBGC will become responsible for meeting future retirement obligations of participants (within certain limitations). The Company would be liable to the PBGC for the amount of the unfunded guaranteed benefit obligation. The Company believes that on a termination basis, the Plan's liabilities could exceed the value of its assets by in excess of \$7.0 million. In addition, the Company did not make the required quarterly contributions during 2003 which aggregate to approximately \$1.4 million. The Company has initiated discussions with the PBGC concerning the termination of the Plan and its obligation to the PBGC if the Plan is terminated (including the timing of its repayment obligation). If the Plan is not terminated, the Company would be obligated to make minimum contributions of approximately \$3.9 million in 2004, which includes the 2003 funding deficiency. It is not possible to predict the outcome of such discussions.

NOTE 6 - STOCK OPTIONS AND WARRANTS

The Company has issued stock options pursuant to four fixed stock-based compensation plans, made special stock option awards to certain directors, consultants and employees and also issued common stock purchase warrants in connection with certain subordinated notes. A summary of shares purchasable upon the exercise of stock options and common stock purchase warrants as of December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
	-----	-----	-----
Fixed stock-based compensation plans	2,292,975	2,939,175	4,608,450
Special stock options	352,000	363,960	535,011
Common stock purchase warrants	-	-	1,523,573
	-----	-----	-----
	2,644,975	3,303,135	6,667,034
	=====	=====	=====

In February 2001, the Company concluded a stock option re-pricing program whereby a total of approximately 3.3 million stock options were cancelled. Pursuant to the program, employees and directors voluntarily elected to cancel stock options held with an exercise price that exceeded \$4.81 per share. In return, the Company granted a total of approximately 3.1 million replacement

Edgar Filing: PUBLICARD INC - Form 10-K

stock options on August 20, 2001. The replacement stock options, which were granted under the Company's fixed stock-based compensation plans, generally contain the same terms and conditions of the cancelled stock options and have an exercise price of \$.39 per share, the closing price of the Company's common stock on August 20, 2001.

FIXED STOCK-BASED COMPENSATION PLANS

The Company has four stock-based compensation plans that provide for the granting of incentive and non-qualified stock options, restricted stock, stock appreciation rights, performance awards and other stock-based awards to employees, non-employee directors and consultants. Under these plans adopted by shareholders of the Company, the Company may grant up to 7,300,000 shares of common stock. The plans are administered by either the Board of Directors of the Company or the Compensation Committee of the Board of Directors. The exercise price of each option granted was equal to the market price of the Company's common stock on the date of grant. Stock options granted to non-employee directors expire five years from the date of grant and vest immediately. Stock options granted to employees generally expire five or ten years from the date of grant. Prior to 1999, stock options granted to employees vested immediately. Grants subsequent to 1998 generally vest over three or four years. As of December 31, 2003, there were 2,018,025 shares available for grant under the fixed stock-based compensation plans.

F-19

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the stock options issued pursuant to the fixed stock-based compensation plans as of December 31, 2003, 2002 and 2001 and changes during the years then ended is presented below:

	2003		2002		2001
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES
	-----	-----	-----	-----	-----
Balance at January 1	2,939,175	\$1.01	4,608,450	\$1.07	3,543,750
Granted	90,000	.07	90,000	.25	4,171,400
Exercised	-	-	-	-	-
Canceled	(736,200)	1.58	(1,759,275)	1.13	(3,106,700)
	-----		-----		-----
Balance at December 31	2,292,975	.79	2,939,175	1.01	4,608,450
	=====		=====		=====

A summary of the Company's stock options outstanding and exercisable issued pursuant to the fixed stock-based compensation plans as of December 31, 2003, is as follows:

Edgar Filing: PUBLICARD INC - Form 10-K

RANGE OF EXERCISE PRICE	OUTSTANDING			EXERCISAB
	SHARES	CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	SHARES
\$.07	90,000	4.6	\$.07	90,000
\$.25 to \$.40	1,970,600	5.4	.38	1,735,500
\$2.06 to \$4.00	142,375	1.6	2.99	129,344
\$6.875	90,000	.6	6.88	90,000
\$.07 to \$6.875 (all options)	2,292,975	4.9	.79	2,044,844

SPECIAL STOCK OPTIONS AND STOCK AWARDS

The Company has issued special stock options outside of the fixed stock option plans. As of December 31, 2003, there are a total of 352,000 special stock options outstanding. All of such options are currently exercisable. No special stock options were granted or exercised in 2003, 2002 or 2001.

In connection with the Company's business acquisitions in 1998 and 1999, the Company granted options to purchase shares of common stock to certain employees and owners of the acquired businesses. As of December 31, 2003, a total of 192,000 options granted outside of the fixed stock option plans remained outstanding with an exercise price of \$9.75 per share. These options expire in February 2004.

In January 1996, the Company issued options to two members of the Company's Board of Directors to purchase 200,000 shares of the Company's common stock at a price of \$2.50 per share for five years. In 2000, a total of 40,000 options were exercised. The expiration date of the remaining 160,000 options was subsequently extended by five years to January 2006.

COMMON STOCK PURCHASE WARRANTS

In December 1986, the Company issued \$30 million of 13% Subordinated Notes together with detachable warrants and underwriter's warrants to purchase a total of 4,800,000 shares of the Company's common stock for five years, which period was subsequently extended by five years. In 1997, the shareholders of the Company approved an additional five-year extension and certain modifications to the warrants. On July 2, 2002, the remaining warrants, entitling the warrant holders to purchase 1,523,573 shares of common stock, expired.

F-20

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases certain office space, vehicles and office equipment under operating leases that expire over the next five years. Certain of these operating leases provide the Company with the option, after the initial lease term, to either purchase the property or renew the lease. Total rent expense for

Edgar Filing: PUBLICARD INC - Form 10-K

all operating leases amounted to approximately \$241,000 in 2003, \$221,000 in 2002 and \$481,000 in 2001.

Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are as follows (in thousands):

YEAR ENDING DECEMBER 31, -----	LEASE PAYMENTS -----	MINIMUM SUBLEASE INCOME -----	NET -----
2004	\$ 356	\$ 116	\$ 240
2005	332	114	218
2006	299	114	185
2007	137	37	100
2008	40	-	40
Remainder	-	-	-
	-----	-----	-----
Total minimum lease payments	\$ 1,164	\$ 381	\$ 783
	=====	=====	=====

Balfour Investors Inc. ("Balfour") occupies a portion of the office space leased by the Company in New York City. The Chairman and Vice Chairman of the Company's Board of Directors are the only shareholders of Balfour. Balfour pays to the Company 50% of the rent and occupancy costs paid by the Company under its lease, including base rent, electricity, water, real estate tax escalations and operation and maintenance escalations. The base rent payable by Balfour is approximately \$11,000 per month.

ENVIRONMENTAL

In April 1996, a consent decree (the "Consent Decree") among the Company, the United States Environmental Protection Agency ("EPA") and the Pennsylvania Department of Environmental Protection ("PADEP") was entered by the court which resolved all of the United States' and PADEP's claims against the Company for recovery of costs incurred in responding to releases of hazardous substances at a facility in Philadelphia previously owned and operated by the Company. Pursuant to the Consent Decree, the Company was obligated to pay a total of \$14.4 million plus interest to the United States and the Commonwealth of Pennsylvania. In January 2002, the Company and the EPA reached an agreement to extend the due date on the remaining unpaid balance through April 2004. In return, the EPA was granted a security interest in certain assets held in escrow ("Greenwald Escrow").

As discussed in Note 9, in September 2002, the Company reached an agreement pursuant to which the Greenwald Escrow was terminated and net proceeds of approximately \$1.3 million were disbursed to the Company. Upon termination of the Greenwald Escrow in October 2002, the Company satisfied the remaining obligation to the EPA amounting to \$806,000, which included accrued interest.

GRANTS AND BANK FINANCING

The Company has received grants from several government agencies in the United Kingdom. These grants have been used for marketing, research and development and other governmental business incentives such as general employment. Such grants require the Company to maintain certain levels of operations and employment in Northern Ireland. As of December 31, 2003, the Company has a contingent liability to repay, in whole or part, grants received of approximately \$535,000 in the event the Company becomes insolvent or otherwise violates the terms of such grants. As of December 31, 2003, the Company is in compliance with the terms of the grants.

Edgar Filing: PUBLICARD INC - Form 10-K

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Infiner has an overdraft facility with a bank in Northern Ireland, which allows for the maximum borrowing of 240,000 British pounds. This facility is secured by all of Infiner's assets and bears an interest rate at the bank's base rate plus 2% (approximately 5.75% at December 31, 2003). As of December 31, 2003, Infiner had borrowings outstanding under this facility totaling 153,000 British pounds (or the equivalent of \$271,000).

LEGAL

On May 28, 2002, a lawsuit was filed against the Company in the Superior Court of the State of California, in the County of Los Angeles by Leonard M. Ross and affiliated entities alleging, among other things, misrepresentation and securities fraud. The lawsuit names the Company and four of its current and former executive officers and directors as the defendants. The plaintiffs seek monetary and punitive damages for alleged actions made by the defendants in order to induce the plaintiff to purchase, hold or refrain from selling PublicARD common stock. The plaintiffs allege that the defendants made a series of material misrepresentations, misleading statements, omissions and concealments, specifically and directly to the plaintiffs concerning the nature, existence and status of contracts with certain purchasers, the nature and existence of investments in the Company by third parties, the nature and existence of business relationships and investments by the Company. The Company believes it has meritorious defenses to the allegations and intends to defend vigorously.

In November 2002, the Company and the individual defendants served with the action filed a demurrer seeking the dismissal of six of the plaintiffs' nine purported causes of action. In January 2003, the court ruled in favor of the demurrer and dismissed the entire complaint. The plaintiffs were granted the right to replead and subsequently filed an amended complaint in February 2003. The Company and individual defendants filed a second demurrer in March 2003. In June 2003, the court ruled in favor of the demurrer and dismissed, without leave to amend, six of the eleven purported causes of action in the amended complaint. The lawsuit is in the early stages. Preliminary discovery has just commenced and no trial date has been set. Consequently, at this time it is not reasonably possible to estimate the damages, or range of damages, if any, that the Company might incur in connection with this action. However, if the outcome of this lawsuit is unfavorable to the Company, it could have a material adverse effect on the Company's operations, cash flow and financial position.

The Company incurred approximately \$200,000 in defense costs in 2002. No additional costs have been incurred in 2003. Notice of the commencement of this action has been given to the Company's directors and officers liability insurance carriers. The Company's directors and officers liability insurance carriers are funding the additional costs of defending this action, subject to the carriers' reservation of rights.

Various other legal proceedings are pending against the Company. The Company considers all such other proceedings to be ordinary litigation incident to the character of its businesses. Certain claims are covered by liability insurance. The Company believes that the resolution of those claims, to the extent not covered by insurance, will not, individually or in the aggregate, have a material adverse effect on the financial position or results of operations of the Company.

CHANGE OF CONTROL AGREEMENTS

The Company is a party to change of control agreements, which provide for payments to certain directors and executive officers under certain circumstances

Edgar Filing: PUBLICARD INC - Form 10-K

following a change of control. Since the change of control agreements require large cash payments to be made by any person effecting a change of control, these agreements may discourage takeover attempts. The change of control agreements provide that, if the services of any person party to a change of control agreement are terminated within three years following a change of control, that individual will be entitled to receive, in a lump sum within 10 days of the termination date, a payment equal to 2.99 times that individual's average annual compensation for the shorter of the five years preceding the change of control and the period the individual received compensation from us for personal services. Assuming a change of control were to occur at the present time, payments of \$738,000 each would be made to the Company's Chairman and Vice Chairman. If any such payment, either alone or together with others made in connection with the individual's termination, is considered to be an excess parachute payment under the Internal Revenue Code, the individual will be entitled to receive an additional payment in an amount which, when added to the initial payment, would result in a net benefit to the individual, after giving effect to excise taxes imposed by Section 4999 of the Internal Revenue Code and income taxes on such additional payment, equal to the initial payment before such additional payment and the Company would not be able to deduct these initial or additional payments for income tax purposes.

F-22

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INSURANCE AND OTHER RECOVERIES

During 2003, the Company entered into three binding settlements with various historical insurers that resolved certain claims (including certain future claims) under policies of insurance issued to the Company by those insurers. As a result of the settlements, after allowance for associated expenses, offsetting adjustments and amounts held in escrow, the Company received net proceeds of approximately \$4.1 million in 2003. Pursuant to one of the settlements, an additional net amount of approximately \$470,000 will be held in escrow for up to three years. The Company recognized a gain from these settlements of approximately \$4.6 million in 2003. See Note 13 for a discussion regarding an additional insurance recovery agreement reached subsequent to December 31, 2003.

The Company is also in discussions with other insurance markets regarding the status of certain policies of insurance. It cannot be determined whether any additional amounts may be recovered from these other insurers nor can the timing of any such additional recoveries be determined.

In October 2003, the Company sold a parcel of land in Louisiana resulting in net proceeds of approximately \$370,000. The Company recognized a gain of approximately \$330,000 in 2003 relating to the land sale which is included in "Other (expense) income".

NOTE 8 - SEGMENT DATA

The Company's sole operating activities involve the deployment of smart card solutions for educational and corporate sites. As such, the Company reports as a single segment. Revenues by geographical areas for the years ended December 31, 2003, 2002 and 2001 are as follows (in thousands):

2003	2002	2001
----	----	----

Edgar Filing: PUBLICARD INC - Form 10-K

United States	\$ 869	\$1,029	\$1,727
Europe	3,467	3,445	3,671
Rest of world	445	131	254
	-----	-----	-----
	\$4,781	\$4,605	\$5,652
	=====	=====	=====

The Company has operations in the United States and United Kingdom. Identifiable tangible assets by country as of December 31, 2003 and 2002 are as follows (in thousands):

	2003	2002
	----	----
United States	\$4,542	\$4,842
United Kingdom	2,035	2,235
	-----	-----
	\$6,577	\$7,077
	=====	=====

NOTE 9 - DISCONTINUED OPERATIONS

In March 2000, the Company's Board adopted a plan to dispose of the operations of the Company's Greenwald Industries Inc. ("Greenwald"), Greenwald Intellicard, Inc ("Greenwald Intellicard"), Greystone Peripherals, Inc ("Greystone") and Amazing Smart Card Technologies, Inc ("Amazing") subsidiaries. These subsidiaries designed, manufactured and distributed mechanical and smart card laundry solutions, hard disk duplicators and smart cards. In the fourth quarter of 1999, the Company recorded a loss of \$2.0 million related to the disposition plan, net of the expected gain on the disposition of these businesses. The loss provision was based on estimates of the proceeds expected to be realized on the dispositions and the results of operations through the disposition or wind-down dates.

F-23

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On June 29, 2000, the Company completed the sale of substantially all of the assets of Greenwald and Greenwald Intellicard to The Eastern Company ("Eastern") for \$22.5 million in cash, less \$1.75 million held in escrow to secure the payment of certain indemnification obligations. As part of the transaction, Eastern assumed certain liabilities of Greenwald and Greenwald Intellicard, including certain contractual liabilities, accounts payable and accrued liabilities. In the third quarter of 2000, the Company recognized a gain of \$4.3 million principally related to the sale of Greenwald and Greenwald Intellicard.

In the second quarter of 2001, the Company revised its estimates of proceeds and expenses associated with the wind-down of Amazing and Greystone and recognized a gain of \$2.4 million, which had been previously deferred pending resolution of certain contingencies.

On September 30, 2002, the Company reached an agreement ("Escrow Termination Agreement") pursuant to which the Greenwald Escrow was terminated and net proceeds of approximately \$1.3 million were disbursed to the Company.

Edgar Filing: PUBLICARD INC - Form 10-K

Pursuant to the Escrow Termination Agreement, Eastern acknowledged that there were no indemnification claims outstanding under the applicable asset purchase agreement. A gain of \$1.1 million was recognized in the third quarter of 2002, principally relating to the release of reserves upon the resolution of the Greenwald Escrow. The amounts the Company will ultimately realize from its discontinued operations could differ from the amounts estimated and could therefore result in additional charges or gains in future periods. The results of the operations of Greenwald, Greenwald Intellicard, Amazing and Greystone have been reflected as discontinued operations.

NOTE 10 - REPOSITIONING CHARGE

As discussed in Note 1, in July 2001, after evaluating the timing of potential future revenues, PublicARD's Board decided to shift the Company's strategic focus. The Company recorded a charge aggregating \$7.3 million in the second and third quarters of 2001 associated with the departure from the smart card reader and chip business. The charge consisted of write-offs of goodwill and intangibles of \$4.1 million and fixed assets of \$554,000, an inventory realizability adjustment of \$1.7 million (included in cost of sales) as a result of the business closure, and severance and other costs of \$1.0 million principally related to the termination of 36 employees. The repositioning activities were substantially completed by December 31, 2001.

NOTE 11 - SUPPLEMENTAL INFORMATION

Other assets as of December 31, 2003 and 2002 consisted of the following (in thousands):

	2003	2002
	----	----
Investment in minority owned affiliates	\$ -	\$ 3,000
Escrow deposit - non current	596	-
Intangible pension asset	2	295
	-----	-----
	\$ 598	\$ 3,295
	=====	=====

Accrued liabilities as of December 31, 2003 and 2002 consisted of the following (in thousands):

	2003	2002
	----	----
Pension liability	\$ 3,866	\$ 1,505
Payroll and other employee benefits	260	292
Deferred revenue	585	402
Other	495	483
	-----	-----
	\$ 5,206	\$ 2,682
	=====	=====

F-24

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other non-current liabilities as of December 31, 2003 and 2002 consisted

Edgar Filing: PUBLICARD INC - Form 10-K

of the following (in thousands):

	2003	2002
	----	----
Pension liability and other retiree benefits	\$ 3,256	\$ 4,872
Other	296	118
	-----	-----
	\$ 3,552	\$ 4,990
	=====	=====

The components of other comprehensive loss as of December 31, 2003 and 2002 consisted of the following (in thousands):

	2003	2002
	----	----
Foreign currency translation adjustment	\$ 75	\$ 85
Minimum pension liability	2,649	2,306
	-----	-----
	\$ 2,724	\$ 2,391
	=====	=====

Comprehensive loss for the Company includes foreign currency translation adjustments and minimum pension liability, as well as net loss reported in the Company's Statements of Operations. Comprehensive loss for years ended December 31, 2003, 2002 and 2001 was as follows (in thousands):

	2003	2002	2001
	----	----	----
Net loss	\$ (1,593)	\$ (7,193)	\$ (14,821)
Minimum pension liability	(343)	(1,405)	(901)
Foreign currency translation adjustments	10	112	(197)
	-----	-----	-----
Comprehensive loss	\$ (1,926)	\$ (8,486)	\$ (15,919)
	=====	=====	=====

NOTE 12 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The unaudited consolidated financial statements for each of the quarterly periods in the years ended December 31, 2003 and 2002 are as follows (in thousands, except per share data):

	MAR. 31	JUN. 30	SEP. 30	DEC. 31
	-----	-----	-----	-----
2003				
Net sales	\$ 1,413	\$ 1,193	\$ 1,417	\$ 758
Gross margin	794	581	772	318
Net income (loss)	1,000	(929)	(749)	(915)
Basic and diluted earnings (loss) per share	\$.04	\$ (.04)	\$ (.03)	\$ (.04)
2002				
Net sales	\$ 1,199	\$ 1,016	\$ 1,298	\$ 1,092
Gross margin	563	496	650	441
Loss from continuing operations	(1,269)	(1,227)	(3,409)	(2,354)
Income from discontinued operations	-	-	1,066	-

Edgar Filing: PUBLICARD INC - Form 10-K

Net loss	(1,269)	(1,227)	(2,343)	(2,354)
Basic and diluted earnings (loss) per share				
Continuing operations	\$ (.05)	\$ (.05)	\$ (.14)	\$ (.10)
Discontinued operations	-	-	.04	-
	-----	-----	-----	-----
	\$ (.05)	\$ (.05)	\$ (.10)	\$ (.10)
	=====	=====	=====	=====

F-25

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - SUBSEQUENT EVENT

In February 2004, the Company entered into a binding agreement to assign to a third party certain insurance claims against a group of historic insurers. The claims involve several historic general liability policies of insurance issued to the Company. As a result of the settlement, after allowance for associated expenses and offsetting adjustments, the Company expects to receive net proceeds of approximately \$475,000 by April 19, 2004.

F-26

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

INDEPENDENT AUDITORS' REPORT ON SCHEDULE II

To the Board of Directors and Shareholders of
PubliCARD, Inc.
New York, New York

We have audited the consolidated financial statements of PubliCARD, Inc. and subsidiary companies (the "Company") as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated March 22, 2004 (which report expresses an unqualified opinion and includes explanatory paragraphs relating to the Company's ability to continue as a going concern and the application of procedures performed in regards to certain disclosures in the 2001 financial statements that were audited by other auditors who have ceased operations and for which we have expressed no opinion or other form of assurance other than with respect to such disclosures). Our audits also included the consolidated financial statement schedule of the Company as of and for the years ended December 31, 2003 and 2002 listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic 2003 consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein. The consolidated financial statements and consolidated financial statement schedule

Edgar Filing: PUBLICARD INC - Form 10-K

of the Company as of December 31, 2001 and for the year ended December 31, 2001 were audited by other auditors who have ceased operations. Those other auditors expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule in their report dated March 20, 2002.

The aforementioned financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has experienced recurring losses from operations, a substantial decline in working capital and negative cash flows from operations, and requires additional capital to meet its obligations, which raises substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ DELOITTE & TOUCHE LLP

New York, New York
March 22, 2004

F-27

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULE

PublicARD, Inc. dismissed Arthur Andersen LLP on June 5, 2002, and subsequently engaged Deloitte & Touche LLP as its independent auditors. The predecessor auditors' report appearing below is a copy of Arthur Andersen LLP's previously issued opinion dated March 20, 2002. Since PublicARD, Inc. is unable to obtain a manually signed audit report, a copy of Arthur Andersen LLP's most recently signed and dated report has been included below to satisfy filing requirements, as permitted under Rule 2-02(e) of Regulation S-X.

To the Shareholders of PublicARD, Inc.:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of PublicARD, Inc. and subsidiary companies included in this Form 10-K and have issued our report thereon dated March 20, 2002. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in the index to consolidated financial statements and schedule is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

The aforementioned financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred operating losses and requires additional capital to meet its obligations and accomplish the Company's business plan, which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Arthur Andersen LLP

Stamford, Connecticut

Edgar Filing: PUBLICARD INC - Form 10-K

March 20, 2002

F-28

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	Balance January 1	Additions ----- Charged to Costs and Expenses -----	Other(1) -----	Deductions () -----
			(in thousand of dollars)	
Year ended December 31, 2003:				
Allowance for doubtful accounts	103	5	7	-
Reserve for discontinued operations	429	-	-	(23)
Year ended December 31, 2002:				
Allowance for doubtful accounts	216	-	-	(113)
Reserve for discontinued operations	1,245	(457)	-	(359)
Year ended December 31, 2001:				
Allowance for doubtful accounts	89	31	158	(62)
Reserve for discontinued operations	3,913	(2,350)	-	(318)

(1) Other changes for the allowance for doubtful accounts in 2001 represents reclassifications of previous year receivable reserves included in other operating accounts.

(2) Deductions for allowance for doubtful accounts represent the write-offs of account receivable. Deductions for discontinued operations represent charges and payments to reserves net of gains and receipts credited to reserves.

F-29